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**Audited Financial  
Statements**

**For the Year Ended  
June 30, 2013**



**THE FLORIDA STATE UNIVERSITY  
FOUNDATION**

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**THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.**  
**Financial Statements and Reports**  
*For the Year Ended June 30, 2013*  
*With Summarized Financial Information for the Year Ended June 30, 2012*

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## Report of Independent Certified Public Accountants

The Board of Trustees  
Thomas Jennings, Foundation President  
Gerald Ganz, Foundation Chief Financial Officer  
The Florida State University Foundation, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Florida State University Foundation, Inc. (the Foundation), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. 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.

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

opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***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, 2013, 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.

### ***Report on Summarized Comparative Information***

We have previously audited the Foundation's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 22, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information (balance sheet, income statement and statement of cash flows) is presented for purposes of additional analysis and is 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 has been subjected to the auditing procedures applied in the audits 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 is fairly stated in all material respects in relation to the financial statements as a whole.

The schedules marked unaudited have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on them.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also have issued our report dated October 21, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

*Ernst + Young LLP*

October 21, 2013

**THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.**  
**Statements of Financial Position**  
*As of June 30, 2013 and 2012*

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Cash and cash equivalents	\$28,399,721	\$24,960,180
Operating pool investments	41,441,320	41,886,969
Accounts receivable - net	3,292,410	810,796
Contributions receivable - net	15,706,397	15,724,361
Investments	439,589,028	393,452,417
Remainder interest trusts	10,062,331	9,623,847
Funds held in trust by others	10,317,470	9,216,422
Real estate held for resale	423,559	423,559
Buildings and equipment - net	148,591	540,610
Other assets	1,551,259	1,611,175
<b>Total assets</b>	<b><u>\$550,932,086</u></b>	<b><u>\$498,250,336</u></b>
<b>Liabilities and net assets</b>		
Liabilities		
Accounts payable	\$1,467,822	\$1,652,558
Deferred revenue	2,455,543	3,800,000
Compensated absence liability	691,005	551,813
Agency liability	372,087	336,480
Annuity obligations	6,424,255	6,300,560
Total liabilities	<u>11,410,712</u>	<u>12,641,411</u>
Net assets (deficit)		
Unrestricted	(6,157,746)	(22,784,717)
Temporarily restricted	140,516,311	121,812,870
Permanently restricted	405,162,809	386,580,772
Total net assets	<u>539,521,374</u>	<u>485,608,925</u>
<b>Total liabilities and net assets</b>	<b><u>\$550,932,086</u></b>	<b><u>\$498,250,336</u></b>

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

**THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.**  
**Statements of Activities and Changes in Net Assets**  
*For the Year Ended June 30, 2013*  
*With Summarized Financial Information for the Year Ended June 30, 2012*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2013 Total</u>	<u>2012 Total</u>
<b>Revenues</b>					
Contributions	\$32,677	\$21,763,119	\$18,892,555	\$40,688,351	\$35,707,140
State and University support	4,929,574	-	-	4,929,574	5,491,026
Other support	-	12,442,874	-	12,442,874	9,896,858
Interest and dividends	310	2,690,984	101,795	2,793,089	4,412,564
Net realized and unrealized (losses) gains	-	49,282,648	811,658	50,094,306	(13,005,649)
Recovery of previous losses in excess of temporarily restricted endowment assets (Note 14)	15,186,867	(15,186,867)	-	-	-
Other revenue	1,231,524	2,441,356	-	3,672,880	6,620,502
Net assets released from restrictions:					
Program and facilities support	43,253,320	(43,253,320)	-	-	-
Administrative support	10,892,012	(10,892,012)	-	-	-
<b>Total revenues</b>	<u>75,526,284</u>	<u>19,288,782</u>	<u>19,806,008</u>	<u>114,621,074</u>	<u>49,122,441</u>
<b>Expenses</b>					
Program	40,052,289	-	-	40,052,289	38,161,091
FSU facilities construction	3,638,000	-	-	3,638,000	671,375
Administrative	6,265,286	-	-	6,265,286	5,883,863
Fundraising	8,943,738	-	-	8,943,738	7,817,246
Provision for uncollectible pledges	-	585,341	2,299,028	2,884,369	2,095,988
<b>Total expenses</b>	<u>58,899,313</u>	<u>585,341</u>	<u>2,299,028</u>	<u>61,783,682</u>	<u>54,629,563</u>
Change in net assets before change in value of split-interest agreements	16,626,971	18,703,441	17,506,980	52,837,392	(5,507,122)
Change in value of split-interest agreements	-	-	1,075,057	1,075,057	(1,420,684)
<b>Change in net assets</b>	<b>16,626,971</b>	<b>18,703,441</b>	<b>18,582,037</b>	<b>53,912,449</b>	<b>(6,927,806)</b>
Net assets (deficit) at beginning of fiscal year	(22,784,717)	121,812,870	386,580,772	485,608,925	492,536,731
<b>Net assets (deficit) at end of period</b>	<b><u>(\$6,157,746)</u></b>	<b><u>\$140,516,311</u></b>	<b><u>\$405,162,809</u></b>	<b><u>\$539,521,374</u></b>	<b><u>\$485,608,925</u></b>

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

**THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.**  
**Statements of Cash Flows**  
*For the Year Ended June 30, 2013 and 2012*

	<u>2013</u>	<u>2012</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$53,912,449	(\$6,927,806)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Contributions for long-term endowments	(18,892,555)	(16,836,477)
Noncash items:		
Noncash gifts	(1,193,881)	(838,806)
Net realized and unrealized losses and (gains)	(50,094,306)	13,005,649
Change in value of split-interest agreements	(1,075,057)	1,420,684
Depreciation and amortization	450,002	520,329
Other adjustments	1,066	557,353
Provision for uncollectible pledges	2,884,369	2,095,988
Changes in assets and liabilities:		
Accounts receivable	(2,481,614)	(528,647)
Contributions receivable	(2,866,405)	(6,427,984)
Refundable advances	-	(4,100,000)
Deferred revenue	(1,344,457)	3,800,000
Accounts payable	(184,736)	206,086
Compensated absence liability	139,192	39,224
<b>Net cash flows used by operating activities</b>	<u>(20,745,933)</u>	<u>(14,014,407)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments	116,762,288	100,741,083
Proceeds from sale of real estate held for resale	-	4,955
Proceeds from sale of assets	33,414	65,000
Payments on notes	2,044	3,074
Purchase of investments	(111,127,862)	(94,972,157)
Purchase of land, buildings and equipment	(58,396)	(87,326)
<b>Net cash flows provided by investing activities</b>	<u>5,611,488</u>	<u>5,754,629</u>
<b>Cash flows from financing activities</b>		
Contributions for long-term endowments	18,892,555	16,836,477
Changes to funds held in trust by others	649,451	-
Payments of annuity obligations	(968,020)	(932,198)
<b>Net cash flows provided by financing activities</b>	<u>18,573,986</u>	<u>15,904,279</u>
Net change in cash and cash equivalents	3,439,541	7,644,501
Cash and cash equivalents - beginning of year	24,960,180	17,315,679
<b>Cash and cash equivalents - end of period</b>	<u>\$28,399,721</u>	<u>\$24,960,180</u>

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, 2013*

**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, 2012, from which the summarized information was derived.

Net assets and revenues, 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 or legal 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 they are 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 FLORIDA STATE UNIVERSITY FOUNDATION, INC.**

**Notes to Financial Statements**

*For the Year Ended June 30, 2013*

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

**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 or cash equivalents held in the long-term investment portfolio (until suitable investments are identified) is excluded from cash and cash equivalents.

**Operating Pool Investments** –The Foundation invests a majority of its excess cash needs in a short-term investment grade bond fund with underlying credit quality primarily rated Aaa to Baa. Operating pool investments are reported at fair value. Realized and unrealized gains and losses related to these investments are net of investment expenses. The Foundation’s investment committee monitors these investments.

**Accounts Receivable** – Accounts receivable primarily consists of an amount due from the University related to an advance for the construction of facilities.

**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 pledge. Unconditional promises to give in future periods are initially recorded at estimated fair value determined using the discounted present value of expected cash flows 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.

The allowance for uncollectible contributions receivable is based upon the Foundation’s analysis of past collection experience, pledge activity and other judgmental factors. If a pledge is past due and has had no activity for two years it is deemed uncollectible. Large pledges are reviewed on a case-by-case basis. The allowance captures the risk premium to bring the contributions receivable balance to a risk-adjusted expected cash flow. The discount rates applied to the risk-adjusted cash flow range from 1.41% to 5%.

**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.

Cash and cash equivalents, accounts receivable, other assets, accounts payable, accrued liabilities and compensated absence liability have a carrying amount that is a reasonable estimate of the fair value because of the short maturity of these instruments. Annuity obligations are presented on a discounted basis that is representative of fair value as these are non-recurring fair value measurements.

The fair values for investments and other financial instruments recorded at fair value on a recurring basis are included in Note 6.

# THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.

## Notes to Financial Statements

For the Year Ended June 30, 2013

### 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. 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 used is the rate in effect at the date of the gift and ranges from 1.2% to 9.6%.

As of June 30, 2013 and 2012, 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. Certain alternative investments have their fair value stated as a Net Asset Value (NAV) per share. The fair value for these assets is estimated by adjusting the NAV provided for cash receipts, cash disbursement, security distributions and significant known valuation changes in market values of securities contained in the portfolio. 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 3.77% and 3.79% for the years ended June 30, 2013 and 2012, respectively.

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

**Notes to Financial Statements**

*For the Year Ended June 30, 2013*

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

**Concentration of Credit Risk** – The majority of the Foundation’s cash equivalents are invested in a local government surplus funds trust fund administered by the State of Florida with underlying credit quality rated A-1+ to A-1. In addition, the Foundation maintains accounts with large financial institutions which 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 Foundation’s long-term investment portfolio is comprised of investments in multiple asset classes that are spread among numerous strategies, all designed to diversify the portfolio with the intent of limiting exposure to risk of loss. The portfolio includes investments in approximately 40 different funds with over 30 unique managers. Only two investments exceeded 10% of the total portfolio as of June 30, 2013 and both were in the U.S. Equity asset class – one passively managed index fund (10.5%) and one actively-managed fund (10.1%). Management believes the exposure of the long-term portfolio is not significant and is in accordance with the guidelines established by the Foundation’s Investment Committee.

**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.

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

**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 uncertain tax positions for which an obligation needs to be recorded pursuant to the *Income Taxes Topic* (ASC 740).

**Advertising Costs** - The Foundation expenses advertising costs as incurred. Advertising expenses for the years ended June 30, 2013 and 2012 totaled \$174,077 and \$313,735, respectively.

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

**Notes to Financial Statements**

*For the Year Ended June 30, 2013*

**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 21, 2013.

**Recent Accounting Pronouncements** – In October 2012, the FASB issued Accounting Standards Update 2012-05, *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*, (ASU 2012-05). ASU 2012-05 amended ASC 230-10 to clarify how cash received from the sale of donated securities should be presented in the statement of cash flows. The ASU requires a not-for-profit to classify cash receipts from the sale of donated securities in a manner consistent with cash donations received. The provisions of ASU 2012-05 will be effective for annual periods beginning after June 15, 2013. The Foundation will incorporate the provisions of ASU 2012-05 in its financial statements for the year ended June 30, 2014 and does not anticipate a significant impact from this change.

In February 2013, the FASB issued Accounting Standards Update 2013-03, *Financial Instruments (Topic 825): Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities*, (ASU 2013-03). ASU 2013-03 clarified that the intended scope of the fair value disclosures required by ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRSs)*, applies to nonpublic entities that have total assets of \$100 million or more or that have one or more derivative instruments. ASU 2013-03 was effective upon issuance. This update has no impact on the Foundation.

In April 2013, the FASB issued Accounting Standards Update 2013-06, *Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate*, (ASU 2013-06). ASU 2013-06 specifies the guidance that not-for-profit entities apply for recognizing and measuring services received from personnel of an affiliate. The provisions of ASU 2013-06 will be effective for annual periods beginning after June 15, 2014. This update has no impact on the Foundation.

**THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.**  
**Notes to Financial Statements**  
*For the Year Ended June 30, 2013*

**2. OPERATING POOL INVESTMENTS**

The goal of the Foundation is to invest its excess operating cash in a manner that will achieve the highest rate of total return.

Operating Pool Investments as of June 30, 2013 and 2012 consist of the following amounts:

	<u>2013</u>	<u>2012</u>
Fixed income:		
Institutional pooled funds	\$41,441,320	\$41,886,969
<b>Total</b>	<b><u>\$41,441,320</u></b>	<b><u>\$41,886,969</u></b>

Investment expenses for the years ended June 30, 2013 and 2012 totaled \$0 and \$0, respectively.

Approximately 99.6% and 99.5% of the Foundation's operating investments at June 30, 2013 and 2012, respectively, are invested in a short-term bond fund consisting of a variety of high-quality and, to a lesser extent, medium-quality fixed income securities, at least 80% of which will be short- and intermediate-term investment-grade securities. The fund is expected to maintain a dollar-weighted average maturity of one to four years. Realized gains and losses and increases and decreases in fair value on such investments are reflected in net realized and unrealized (losses) gains in the statement of activities.

Approximately 0.4% and 0.5% of the Foundation's operating investments at June 30, 2013 and 2012, respectively, were invested in segregated distressed securities with limited liquidity held by the Florida State Board of Administration (SBA) with the objective of maximizing the present value of distributions as the securities are liquidated. Realized gains and losses and increases and decreases in fair value on such investments are reflected in net realized and unrealized (losses) gains in the statement of activities.

**3. ACCOUNTS RECEIVABLE**

Accounts receivable consists of the following at June 30:

	<u>2013</u>	<u>2012</u>
<b>Accounts receivable</b>		
Accounts receivable	\$3,418,120	\$828,803
Less: Allowance for uncollectibles	(8,350)	(18,007)
Unamortized discount	<u>(117,360)</u>	<u>-</u>
<b>Total accounts receivable – net</b>	<b><u>\$3,292,410</u></b>	<b><u>\$810,796</u></b>

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

**Notes to Financial Statements**

*For the Year Ended June 30, 2013*

**4. CONTRIBUTIONS RECEIVABLE**

Unconditional promises to give are included in the financial statements as contributions receivable. Contributions receivable are recorded at fair value. See Note 1 for discount rates used. Unconditional promises are expected to be realized in the following periods:

	<u>2013</u>	<u>2012</u>
In one year or less	\$ 5,495,928	\$2,665,815
Between one and five years	9,618,371	10,040,078
Greater than five years	<u>6,317,931</u>	<u>6,532,030</u>
Unconditional promises – face value	\$21,432,230	\$19,237,923
Less: Allowance for uncollectibles	(5,046,960)	(2,687,632)
Unamortized discount	<u>(678,873)</u>	<u>(825,930)</u>
<b>Contributions receivable - net</b>	<b><u>\$15,706,397</u></b>	<b><u>\$15,724,361</u></b>

Approximately 57% of contributions receivable at June 30, 2013 and 66% of contributions receivable at June 30, 2012 were provided by 12 donors respectively.

The Foundation is the beneficiary of numerous conditional promises to give and bequests. A conditional promise requires a future event to take place before the promise becomes binding on the donor. Typically, the Foundation has no control over the required event. At June 30, 2013 and 2012, the Foundation was the beneficiary of certain conditional promises and other items, such as bequests, that do not meet recognition criteria of approximately \$274 million and \$255 million, respectively. No receivable was recorded for these bequests and pledges, nor was the future support recognized.

At June 30, 2013 and 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.

**5. 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.

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

**Notes to Financial Statements**

*For the Year Ended June 30, 2013*

**5. INVESTMENTS (continued)**

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.

Investments as of June 30, 2013 and 2012 consist of the following amounts:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ -	\$ 1,331,211
Fixed income:		
Institutional pooled funds	59,543,417	59,311,899
Equities:		
Securities held for resale	7,257	-
Institutional pooled funds	203,669,419	176,153,026
Hedge Funds:		
Long/short equity		
U.S. long/short	11,633,735	9,760,471
Global long/short	28,989,170	22,488,547
Absolute return		
Diversified arbitrage	5,040,373	4,638,608
Event driven/open mandate	32,491,107	24,744,624
Credit strategies/distressed	17,004,204	17,022,029
Global macro	5,431,107	10,257,092
Limited partnerships:		
Venture capital	2,577,768	2,160,210
Private equity	22,721,186	18,702,312
Distressed assets	7,566,940	5,515,473
Real estate	7,113,582	6,137,335
Natural resources	4,021,157	2,632,553
Real assets:		
Mutual funds	7,754,721	7,001,680
Institutional pooled fund	<u>24,023,885</u>	<u>25,595,347</u>
<b>Total</b>	<b><u>\$439,589,028</u></b>	<b><u>\$393,452,417</u></b>

Investment expenses for the years ended June 30, 2013 and 2012 totaled \$7,295,460 and \$4,137,078, respectively.



## THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.

### Notes to Financial Statements

For the Year Ended June 30, 2013

#### 5. INVESTMENTS (continued)

Approximately 61.6% and 62.0% of the Foundation's investments at June 30, 2013 and 2012, 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 and non-investment grade corporate bonds and certificates of deposit.

Approximately 22.9% and 22.6% of the Foundation's investments at June 30, 2013 and 2012, 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. All but one are valued at net asset value (NAV). Realized gains and losses and increases and decreases in fair value on such investments are reflected in net realized and unrealized (losses) gains in the statement of activities.

Approximately 5.5% and 6.5% of the Foundation's investments at June 30, 2013 and 2012, 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 and losses and increases and decreases in fair value on such investments are reflected in net realized and unrealized (losses) gains in the statement of activities.

Approximately 10.0% and 8.9% of the Foundation's investments at June 30, 2013 and 2012, 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 30<sup>th</sup> valuations of the investments in limited partnerships are based upon the value determined by the partnerships' general partner as of March 31<sup>st</sup>, adjusted for capital contributions and distributions that occurred during the quarter ended June 30<sup>th</sup>. These amounts may differ from values that would be determined if the investments in limited partnerships were publicly traded or if the June 30<sup>th</sup> valuation amounts were currently available. Realized gains and losses and increases and 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, 2013, pursuant to its limited partnership agreements, the Foundation is committed to contributing \$88.5 million in capital over the next 15 years. As of this date, the total unfunded commitment to these partnerships is \$46.4 million.

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

**Notes to Financial Statements**

*For the Year Ended June 30, 2013*

**6. 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, 2013*

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

The following tables present financial instruments that are measured at fair value on a recurring basis as of June 30, 2013 and June 30, 2012:

<u>Fair Value Measurement at June 30, 2013</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Investments</b>				
Fixed income:				
Domestic institutional pooled fund	\$38,934,058	\$ -	\$38,934,058	\$ -
Global institutional pooled fund	20,609,359	-	20,609,359	-
Equities:				
Securities held for resale	7,257	7,257	-	-
U.S. institutional pooled fund	100,621,948	-	100,621,948	-
Global ex U.S. institutional pooled fund	76,479,928	-	76,479,928	-
Emerging markets institutional pooled fund	26,567,543	-	26,567,543	-
Hedge funds:				
U.S. long/short	11,633,735	-	11,633,735	-
Global long/short	28,989,170	-	28,989,170	-
Diversified arbitrage	5,040,373	-	5,040,373	-
Event driven/open mandate	32,491,107	-	25,162,469	7,328,638
Credit strategies/distressed	17,004,204	-	17,004,204	-
Global macro	5,431,107	-	5,431,107	-
Limited partnerships:				
Venture capital L.P. fund	2,577,768	-	-	2,577,768
Private equity L.P. fund	22,721,186	-	-	22,721,186
Distressed assets L.P. fund	7,566,940	-	-	7,566,940
Real estate L.P. fund	7,113,582	-	-	7,113,582
Natural resources L.P. fund	4,021,157	-	-	4,021,157
Real assets:				
Global REIT mutual fund	7,754,721	-	7,754,721	-
Diversified inflation hedge institutional fund	24,023,885	-	24,023,885	-
<b>Total investments</b>	<b>\$439,589,028</b>	<b>\$7,257</b>	<b>\$388,252,500</b>	<b>\$51,329,271</b>
<b>Remainder interest trusts</b>				
Short-term investment fund	\$ 365,790	\$365,790	\$ -	\$ -
Fixed income:				
Domestic institutional pooled fund	3,312,983	-	3,312,983	-
Equities:				
U.S. institutional pooled fund	3,372,451	-	3,372,451	-
Global ex U.S. institutional pooled fund	2,220,144	-	2,220,144	-
Real assets:				
Global REIT mutual fund	471,261	-	471,261	-
Commodity index fund	319,702	-	319,702	-
<b>Total remainder interest trusts</b>	<b>\$10,062,331</b>	<b>\$365,790</b>	<b>\$9,696,541</b>	<b>\$ -</b>
<b>Funds held in trust by others</b>	<b>\$10,317,470</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$10,317,470</b>
<b>Total investments &amp; financial instruments</b>	<b>\$459,968,829</b>	<b>\$373,047</b>	<b>\$397,949,041</b>	<b>\$61,646,741</b>
<b>Operating pool investments</b>	<b>\$41,441,320</b>	<b>\$41,282,877</b>	<b>\$ 158,443</b>	<b>\$ -</b>

**THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.**  
**Notes to Financial Statements**  
*For the Year Ended June 30, 2013*

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

<u>Fair Value Measurement at June 30, 2012</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Investments</b>				
Cash and cash equivalents	\$ 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	-
<b>Total investments</b>	<b>\$393,452,417</b>	<b>\$1,331,211</b>	<b>\$352,157,231</b>	<b>\$39,963,975</b>
<b>Remainder interest trusts</b>				
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	-
<b>Total remainder interest trusts</b>	<b>\$9,623,847</b>	<b>\$247,786</b>	<b>\$9,376,061</b>	<b>\$ -</b>
<b>Funds held in trust by others</b>	<b>\$9,216,422</b>	<b>-</b>	<b>-</b>	<b>\$9,216,422</b>
<b>Total investments &amp; financial instruments</b>	<b>\$412,292,686</b>	<b>\$1,578,997</b>	<b>\$361,533,292</b>	<b>\$49,180,397</b>
<b>Operating pool investments</b>	<b>\$41,886,969</b>	<b>\$41,687,996</b>	<b>\$ 198,973</b>	<b>\$ -</b>

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

**Notes to Financial Statements**

*For the Year Ended June 30, 2013*

**6. 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. There have been no changes to valuation methods and assumptions.

*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, 2013.

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

**Notes to Financial Statements**

*For the Year Ended June 30, 2013*

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

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.
- 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.

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

**Notes to Financial Statements**

*For the Year Ended June 30, 2013*

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

*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.

*Operating Pool Investments* -The Foundation's operating pool investments are classified as Level 1 and 2. The fair value of the investment in the short-term investment grade bond fund with underlying credit quality primarily rated Aaa to Baa is classified as Level 1. The portion invested in the surplus funds trust fund administered by the State of Florida, which is valued as a fluctuating NAV pool, is classified as Level 2.

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, 2013*

**6. 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 years ended June 30, 2013 and June 30, 2012. Relating to Level 3, the following tables present a reconciliation of financial instruments measured at fair value on a recurring basis using significant unobservable inputs for the years ended June 30, 2013 and June 30, 2012:

	Venture capital	Private equity	Distressed assets	Event driven/ open mandate	Real estate	Natural resources	Funds held in trust by others	Total investments and financial instruments
<b>Beginning balances at July 1, 2012</b>	<b>\$2,160,210</b>	<b>\$18,702,312</b>	<b>\$5,515,473</b>	<b>\$4,816,092</b>	<b>\$6,137,335</b>	<b>\$2,632,553</b>	<b>\$9,216,422</b>	<b>\$49,180,397</b>
Transfers into Level 3	-	-	-	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-	-	-	-
Net realized and unrealized gains (losses) included in change in net assets	27,177	(199,440)	1,632,968	512,546	(724,783)	(378,438)	1,682,891	2,552,921
Purchases, sales issuances and settlements								
Purchases	390,381	4,218,314	442,359	2,000,000	1,701,030	1,767,042	-	10,519,126
Sales	-	-	(23,860)	-	-	-	(581,843)	(605,703)
Issuances	-	-	-	-	-	-	-	-
Settlements	-	-	-	-	-	-	-	-
<b>Ending balances at June 30, 2013</b>	<b><u>\$2,577,768</u></b>	<b><u>\$22,721,186</u></b>	<b><u>\$7,566,940</u></b>	<b><u>\$7,328,638</u></b>	<b><u>\$7,113,582</u></b>	<b><u>\$4,021,157</u></b>	<b><u>\$10,317,470</u></b>	<b><u>\$61,646,741</u></b>



**THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.**  
**Notes to Financial Statements**  
*For the Year Ended June 30, 2013*

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

	<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 investments and financial instruments</u>
<b>Beginning balances at July 1, 2011</b>	<b>\$1,527,854</b>	<b>\$13,703,851</b>	<b>\$3,180,200</b>	<b>\$4,785,111</b>	<b>\$4,659,332</b>	<b>\$1,465,771</b>	<b>\$10,047,705</b>	<b>\$39,369,824</b>
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	-	-	-	-	-	-	-	-
<b>Ending balances at June 30, 2012</b>	<b><u>\$2,160,210</u></b>	<b><u>\$18,702,312</u></b>	<b><u>\$5,515,473</u></b>	<b><u>\$4,816,092</u></b>	<b><u>\$6,137,335</u></b>	<b><u>\$2,632,553</u></b>	<b><u>\$9,216,422</u></b>	<b><u>\$49,180,397</u></b>

**THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.**  
**Notes to Financial Statements**  
*For the Year Ended June 30, 2013*

**6. 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, 2013 and June 30, 2012:

<b><u>June 30, 2013</u></b>	<b><u>Total Fair Value</u></b>	<b><u>Unfunded Commitments</u></b>	<b><u>Exit Frequency</u></b>	<b><u>Days Notice</u></b>
<b><u>Hedge funds</u></b>				
Long/short equity (a)				
U.S. long/short	\$11,633,735	\$ -	Annually	60
Global long/short	28,989,170	-	Quarterly/Annually/ Every 3 Years	45-65
Absolute return (b)				
Diversified arbitrage	5,040,373	-	Quarterly	45
Event driven/open mandate	32,491,107	-	Quarterly/Annually/ Every 12 months	30-90
Credit strategies/distressed	17,004,204	-	Quarterly/Annually/ Every 24 months	45-90
Global macro	5,431,107	-	Monthly	10
<b><u>Limited partnerships (c)</u></b>				
Venture capital	2,577,768	15,088,550		
Private equity	22,721,186	10,533,618		
Distressed assets	7,566,940	-		
Real estate	7,113,582	6,982,470		
Natural resources	<u>4,021,157</u>	<u>13,823,813</u>		
<b>Total</b>	<b><u>\$144,590,329</u></b>	<b><u>\$46,428,451</u></b>		

**THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.**  
**Notes to Financial Statements**  
*For the Year Ended June 30, 2013*

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

<u>June 30, 2012</u>	<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>		
<b>Total</b>	<b><u>\$124,059,254</u></b>	<b><u>\$36,847,259</u></b>		

(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 14% 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 86% can be redeemed in less than one year at June 30, 2013.

**THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.**  
**Notes to Financial Statements**  
*For the Year Ended June 30, 2013*

**6. 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 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 11% 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 89% can be redeemed in less than one year at June 30, 2013.

(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, 2013, 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.

**7. 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, 2013, contributions of \$722,377 were received. The change in the value of annuities included in the change of split-interest agreements in the statements of activities was a decrease of \$675,443.

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

	<u>2013</u>	<u>2012</u>
Fair value of securities held	\$10,062,331	\$9,623,847
Annuity obligations	<u>(6,424,255)</u>	<u>(6,300,560)</u>
<b>Permanently restricted net asset</b>	<b><u>\$3,638,076</u></b>	<b><u>\$3,323,287</u></b>

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

**Notes to Financial Statements**

*For the Year Ended June 30, 2013*

**8. 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, 2013, contributions of \$0 were received. The change in the value of funds held in trust by others included in the change of split-interest agreements in the statements of activities was an increase of \$1,750,500.

Fair value of these funds at June 30 is as follows:

	<u>2013</u>	<u>2012</u>
Statement value	\$15,386,541	\$ 15,279,164
Discount to fair value	<u>(5,069,071)</u>	<u>(6,062,742)</u>
<b>Funds held in trust by others</b>	<b><u>\$10,317,470</u></b>	<b><u>\$9,216,422</u></b>

**9. 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 Foundation as beneficiary were received by the Foundation and, if permitted by the terms of the gift agreement, 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 University. Carrying values for real estate held by the Foundation for resale at June 30, 2013 and 2012 were \$423,559 and \$423,559, respectively. At June 30, 2013 and 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, 2013*

**10. BUILDINGS AND EQUIPMENT**

Buildings and equipment consist of the following at June 30, 2013, and 2012:

	<u><b>2013</b></u>	<u><b>2012</b></u>
Buildings and leasehold improvements	\$ 516,050	\$ 516,050
Furniture, fixtures and equipment	2,950,722	2,968,754
Vehicles	<u>1,124</u>	<u>-</u>
Total depreciable assets	\$3,467,896	\$3,484,804
Less: Accumulated depreciation and amortization	<u>(3,319,305)</u>	<u>(2,944,194)</u>
<b>Buildings and equipment – net</b>	<u><b>\$148,591</b></u>	<u><b>\$540,610</b></u>

Total depreciation and amortization expense for the years ended June 30, 2013 and 2012 was \$450,002 and \$520,329, respectively.

**11. OTHER ASSETS**

Other assets consist of the following at June 30, 2013, and 2012:

	<u><b>2013</b></u>	<u><b>2012</b></u>
Note receivable	\$ 44,218	\$ 45,790
Asset held for resale	-	16,500
Cash surrender value of life insurance	<u>1,507,041</u>	<u>1,548,885</u>
<b>Other assets</b>	<u><b>\$1,551,259</b></u>	<u><b>\$1,611,175</b></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, 2013 and 2012 is approximately \$6.0 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.

**12. AGENCY LIABILITY**

The Foundation holds assets, primarily reported as investments, for The Florida State University Alumni Association, Inc. The funds held on their behalf are reported as agency liabilities. The fair value of these investments as of June 30, 2013 and 2012 is \$372,087 and \$336,480, respectively.

**THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.**  
**Notes to Financial Statements**  
*For the Year Ended June 30, 2013*

**13. NET ASSETS**

At June 30, 2013 and 2012, net assets included unrestricted funds and funds restricted by donors for the following purposes:

	<u>2013</u>	<u>2012</u>
<b>Unrestricted</b>		
Unrestricted net assets before adjustment for losses	\$10,943,805	\$ 9,503,701
Losses in excess of temporarily restricted endowment assets	<u>(17,101,551)</u>	<u>(32,288,418)</u>
<b>Total unrestricted net deficit</b>	<b>(\$6,157,746)</b>	<b>(\$22,784,717)</b>
<b>Temporarily restricted</b>		
Faculty and staff support	\$ 90,372,941	\$ 75,895,813
Student financial aid	34,375,995	28,872,407
Student organizations	1,352,089	1,223,395
University administration	4,381,707	5,732,445
Research	908,870	720,024
Facilities, equipment and other	<u>9,124,709</u>	<u>9,368,786</u>
<b>Total temporarily restricted net assets</b>	<b>\$140,516,311</b>	<b>\$121,812,870</b>
<b>Permanently restricted</b>		
Faculty and staff support	\$ 259,087,224	\$ 245,122,281
Student financial aid	129,393,721	127,216,280
Student organizations	464,197	457,105
University administration	85,872	86,064
Research	1,231,795	957,295
Facilities and equipment	4,165,142	4,180,315
Remainder interest in trusts	<u>10,734,858</u>	<u>8,561,432</u>
<b>Total permanently restricted net assets</b>	<b>\$405,162,809</b>	<b>\$386,580,772</b>
<b>Total net assets</b>	<b><u>\$539,521,374</u></b>	<b><u>\$485,608,925</u></b>

**14. 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 with an effective date of 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, 2013

#### 14. ENDOWMENT (*continued*)

The Foundation's endowment consists of approximately 1,299 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 XXXVI, Business Organizations, Chapter 617.2104 – Florida Uniform Prudent Management of Institutional Funds Act (Florida UPMIFA). The Board of Trustees of the Foundation has interpreted Florida UPMIFA 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 Florida UPMIFA. In accordance with Florida UPMIFA, 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, 2013*

**14. 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 Consumer Price Index – Urban (CPI-U). 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 2.4% to cover administrative fees. Therefore, the desired minimum real rate of return is equal to CPI-U plus 640 basis points (6.4%) 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, 2013*

**14. ENDOWMENT (continued)**

At June 30, 2013, the endowment net asset composition by type of fund consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated funds	\$1,988,481	\$ -	\$ -	\$ 1,988,481
Donor-restricted funds	<u>(17,101,551)</u>	<u>52,425,474</u>	<u>377,995,911</u>	<u>413,319,658</u>
<b>Total funds</b>	<b><u>(\$15,113,070)</u></b>	<b><u>\$52,425,474</u></b>	<b><u>\$377,995,911</u></b>	<b><u>\$415,308,139</u></b>

Changes in endowment funds for the year ended June 30, 2013, 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	(\$30,299,937)	\$39,820,793	\$360,973,944	\$370,494,624
Investment return:				
Investment income	-	3,939,508	-	3,939,508
Net realized and unrealized gains	<u>15,186,867</u>	<u>20,736,803</u>	<u>-</u>	<u>35,923,670</u>
Total investment return	15,186,867	24,676,311	-	39,863,178
Contributions	-	727,859	18,377,194	19,105,053
Appropriation of endowment assets for expenditure	-	(13,144,818)	-	(13,144,818)
Other changes:				
Reclassification of assets	<u>-</u>	<u>345,329</u>	<u>(1,355,227)</u>	<u>(1,009,898)</u>
<b>Endowment net assets, end of period</b>	<b><u>(\$15,113,070)</u></b>	<b><u>\$52,425,474</u></b>	<b><u>\$377,995,911</u></b>	<b><u>\$415,308,139</u></b>

**THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.**  
**Notes to Financial Statements**  
*For the Year Ended June 30, 2013*

**14. ENDOWMENT (continued)**

At June 30, 2012, the endowment net asset composition by type of fund consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated funds	\$1,988,481	\$ -	\$ -	\$ 1,988,481
Donor-restricted funds	<u>(32,288,418)</u>	<u>39,820,793</u>	<u>360,973,944</u>	<u>368,506,319</u>
<b>Total funds</b>	<b><u>(\$30,299,937)</u></b>	<b><u>\$39,820,793</u></b>	<b><u>\$360,973,944</u></b>	<b><u>\$370,494,800</u></b>

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	(\$12,629,594)	\$53,345,813	\$346,081,505	\$386,797,724
Investment return:				
Investment income	-	3,217,446	-	3,217,446
Net realized and unrealized gains	<u>(17,927,498)</u>	<u>(3,245,920)</u>	<u>-</u>	<u>(21,173,418)</u>
Total investment return	(17,927,498)	(28,474)	-	(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>
<b>Endowment net assets, end of period</b>	<b><u>(\$30,299,937)</u></b>	<b><u>\$39,820,793</u></b>	<b><u>\$360,973,944</u></b>	<b><u>\$370,494,800</u></b>

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, 2013 and 2012 was \$17,101,551 and \$32,288,418, respectively and is classified as part of unrestricted net assets on the statements of activities and changes in net assets. The recovery of previous losses of \$15,186,867 for the year ended June 30, 2013 is reported in the statements of activities.

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

**Notes to Financial Statements**  
*For the Year Ended June 30, 2013*

**15. 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, 2013 and 2012 is summarized below:

	<u>2013</u>	<u>2012</u>
FSUF Investment Portfolio Total Return (net of fees)	13.60%	-2.81%
Less: Budgeted Spending Rate and Administrative Fee	-6.40%	-6.50%
Inflation (Consumer Price Index – Urban[CPI-U])	<u>-1.75%</u>	<u>-1.66%</u>
<b>Net Real Return</b>	<b><u>5.45%</u></b>	<b><u>-10.97%</u></b>

**16. PROGRAM EXPENDITURES**

At June 30, 2013 and 2012, expenditures for program support included the following purposes:

	<u>2013</u>	<u>2012</u>
Salary supplements	\$9,172,534	\$7,540,614
Scholarships, grants and fellowships	6,501,469	6,343,721
Travel and entertainment	5,688,360	5,441,570
Equipment and supplies	2,698,647	2,944,235
Printing and marketing	2,193,752	2,023,420
Professional services	1,909,860	1,908,361
Utilities and maintenance	332,792	353,764
Rents and leases	339,175	272,063
Taxes and license fees	186,596	1,298,576
Insurance	69,686	8,530
Other university support	<u>2,585,535</u>	<u>1,985,922</u>
	31,678,406	30,120,776
Athletic development	<u>8,373,883</u>	<u>8,040,315</u>
<b>Total program expenditures</b>	<b><u>\$40,052,289</u></b>	<b><u>\$38,161,091</u></b>

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

**Notes to Financial Statements**

*For the Year Ended June 30, 2013*

**16. PROGRAM EXPENDITURES (continued)**

Athletic development expenditures included in program support are primarily salary supplements for coaches and staff and expenses related to team travel. These expenditures are offset by monies received from the Seminole Boosters, Inc., a direct support organization of FSU. The monies received are included in other support on the statements of activities and totaled \$8,260,765 and \$7,945,765 for the year ended June 30, 2013 and 2012, respectively.

**17. OPERATING LEASE**

The Foundation has a lease agreement relating to office facilities that was set to expire March 31, 2013, which has been extended. The modified lease has a non-cancelable term ending March 31, 2014 and may be renewed yearly for up to four years through March 31, 2018 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, 2013 and 2012, respectively.

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

**Fiscal Year ending June 30:**

2014	\$ 574,263
2015	591,491
2016	609,236
2017	627,513
2018	<u>481,145</u>
<b>Total minimum lease payments required</b>	<b><u>\$2,883,648</u></b>

**18. COMMITMENTS AND CONTINGENCIES**

In October 2004, the 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, 2013, the Foundation has not made any payments as guarantor nor accrued any liability for this guarantee.

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

**Notes to Financial Statements**

*For the Year Ended June 30, 2013*

**18. COMMITMENTS AND CONTINGENCIES *(continued)***

In April 2013, the Foundation made available to the Real Estate Foundation a \$2.5 million line of credit. The line of credit has been extended in order to provide the Real Estate Foundation with the additional funding it requires to fulfill its mission to acquire, hold, manage, lease, mortgage, develop, administer or sell real property for the benefit of FSU. Interest will be paid monthly based on the amount of principal outstanding and principal borrowings will be repaid upon the sale of property purchased with the line of credit. As of June 30, 2013, the Foundation has not made any advances nor accrued any receivable for this line of credit.

In July 2013, the Foundation received notification that a donor considered the Foundation in default on the gift agreement, and subsequent amendments, that were executed in relation to their gift. This matter has yet to be resolved, but the Foundation does not consider itself in default. The total amount of payments and pledges made by this donor and recorded on the financial statements of the Foundation that could be subject to the claim is approximately \$4 million. In addition, the donor's \$30 million bequest, as well as another unrecorded commitment totaling \$2 million, may be at risk as well.

**19. RECLASSIFICATION**

Certain financial statement line items for the year ended June 30, 2012 have been reclassified to conform to the current year's presentation.

**20. 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 upon employment. 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 \$9,928,507, net of unvested forfeitures. Of this total, \$983,559 and \$894,118 was contributed during the year ended June 30, 2013 and 2012, respectively. In the event the plan is terminated, vested employees will at that time have a non-forfeitable interest in the annuity contract.

**21. RELATED PARTY TRANSACTIONS**

The Foundation recognized support from the University of \$4,929,574 and \$5,491,026 for the years ended June 30, 2013 and 2012, respectively. These monies support fundraising activities and salaries.

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

**Notes to Financial Statements**

*For the Year Ended June 30, 2013*

**21. RELATED PARTY TRANSACTIONS (continued)**

In October of 2011, the Foundation entered into a 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 27, 2013, the contract was extended to June 30, 2014. This extension included a prepayment discount of 2.4% if the contract amount was paid prior to June 30, 2013. Payment of \$2.5 million was received in June 2013 and is reflected in the statements of financial position as deferred revenue which will be recognized as services are performed during fiscal year 2013. On June 1, 2012, the contract was extended to June 30, 2013. Payment of \$3.8 million was received in June 2012 and the revenue was fully recognized 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.

**22. THE FLORIDA STATE REAL ESTATE FOUNDATION, INC.**

The Real Estate Foundation was approved as a Direct Support Organization of FSU 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 FSU. 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 FSU, the Foundation, or such other entity as the Real Estate Foundation Board may determine appropriate.

No proceeds from the Real Estate Foundation were received by the Foundation during the years ended June 30, 2013 and 2012.

The Foundation provided support to the Real Estate Foundation for administrative expenses of \$56,000 and \$16,993 for the years ended June 30, 2013 and 2012, respectively. The Foundation has extended a line of credit to the Real Estate Foundation for the purchase of properties as detailed in Note 18.

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

Board of Trustees, Thomas Jennings, Foundation President, and  
Gerald Ganz, Foundation Chief Financial Officer  
The Florida State University Foundation, Inc.

We have audited, 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, the financial statements of The Florida State University Foundation, Inc. (the Foundation), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2013.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



## **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*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ernst + Young LLP*

October 21, 2013