Financial Statements
and Reports

For the Year Ended
June 30, 2019

FLORIDA STATE UNIVERSITY
REAL ESTATE FOUNDATION
(A Discrete Component Unit of Florida State University)

FLORIDA STATE UNIVERSITY REAL ESTATE FOUNDATION, INC.
Financial Statements and Reports
For the Year Ended June 30, 2019

CONTENTS

Thomas Howell Ferguson P.A.
Certified Public Accountants

Report of Independent Auditors

The Board of Directors
Florida State University Real Estate Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of the Florida State University Real Estate Foundation, Inc. (the Real Estate Foundation) which comprise the statement of net position as of June 30, 2019, the related statement of revenues, expenses, and changes in net position 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 accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Thomas Howell Ferguson P.A.
Certified Public Accountants

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Florida State University Real Estate Foundation, Inc., as of June 30, 2019, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Real Estate Foundation converted to the Governmental Accounting Standards Board (GASB) reporting model effective July 1, 2018 as a result of the passing of Chapter 2018-004, Laws of Florida, a provision that changed Section 1004.28, Florida Statutes. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2019 on our consideration of the Real Estate 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 solely 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 effectiveness of the Real Estate Foundation's 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 Real Estate Foundation's internal control over financial reporting and compliance.

Thomas Howell Ferguson P.A.

Tallahassee, Florida
September 13, 2019

FLORIDA STATE UNIVERSITY REAL ESTATE FOUNDATION, INC.
Management's Discussion and Analysis
For the Year Ended June 30, 2019

The management's discussion and analysis provides an overview of the financial position and activities of the Florida State University Real Estate Foundation (Real Estate Foundation) for the year ended June 30, 2019. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. It should be read in conjunction with the financial statements and notes to financial statements for the Real Estate Foundation which follow this section.

OVERVIEW OF FINANCIAL STATEMENTS

The Real Estate Foundation's financial report includes three basic financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with generally accepted accounting principles promulgated by GASB. The financial statements focus on the financial condition of the Real Estate Foundation, the results of operations, and cash flows of the Real Estate Foundation as a whole. The accrual basis of accounting is used for presentation which is similar to most private-sector companies.

The Statement of Net Position presents the financial position of the Real Estate Foundation at the end of the period and includes all of the assets and liabilities of the Real Estate Foundation. The change in net position – the difference between assets and liabilities – is one indicator of the current financial position of the Real Estate Foundation; however, other non-financial factors, such as the national and international economy must also be considered when assessing the overall health of the Real Estate Foundation. The differences in net position that occur over time indicate whether the overall financial condition of the Real Estate Foundation has improved or worsened. Assets and liabilities are reported at cost, approximating fair value, with the exception of investments, which are reported at fair value, and capital assets, which are stated at the historical cost less accumulated depreciation.

The Statement of Revenues, Expenses and Changes in Net Position presents the revenue and expense activity for the Real Estate Foundation, categorized as operating and non-operating. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

The Statement of Cash Flows provides information about the Real Estate Foundation's financial results by reporting the major sources and uses of cash and cash equivalents. This statement assists in evaluating the Real Estate Foundation's ability to generate net cash flows, its ability to meet its financial obligations as they come due and its need for external financing.

FLORIDA STATE UNIVERSITY REAL ESTATE FOUNDATION, INC.
Management's Discussion and Analysis
For the Year Ended June 30, 2019

FINANCIAL HIGHLIGHTS

The assets for the Real Estate Foundation totaled $327,406 at June 30, 2019, which reflects a decrease of $257,406, or 44 percent, from June 30, 2018. This decrease is primarily attributable to the distribution of cash proceeds related to the sales of investments. The investments were sold prior to June 30, 2018 and the proceeds were held in cash at the fiscal year ended June 30, 2018. The proceeds were subsequently transferred to the benefit of the Florida State University Foundation (FSU Foundation). Liabilities for the Real Estate Foundation decreased $233,273, or 95 percent, at June 30, 2019, compared to $241,886 at June 30, 2018. This was attributable to the accounts payable for cash proceeds related to the aforementioned liquidation, which was owed to related parties for the prior year-end. Total ending net position decreased $27,112, or 8 percent, for a balance of $315,814 as of June 30, 2019.

The Real Estate Foundation's net operating loss totaled $17,185 for the year ended June 30, 2019, resulting in a decrease in the loss of $1,259,128 compared to the year ended June 30, 2018. Two real estate property investments were sold which directly impacted revenues and expenses. Operating revenues totaled $642,184 for the year ended June 30, 2019, for a decrease of $146,345, or 19 percent, from the year ended June 30, 2018. While contributions increased significantly from the prior year, the increase was offset by the decrease in support from the University related to staff vacancies and reductions in support for consulting expenditures. Furthermore, the two properties sold were rental properties that are no longer generating income. Operating expenses totaled $659,369 for the year ended June 30, 2019, for a decrease of $1,405,473, or 68 percent, from the year ended June 30, 2018. While administrative expenses decreased slightly as a result of staff vacancies and reductions in consulting expenses, the biggest contributor is the decrease in transfers to related organizations from the distribution of sales proceeds in the prior year.

CAPITAL ASSETS

Capital assets totaled $193,096 at June 30, 2019 which reflects a decrease of $2,708 from June 30, 2018. This is a result of additional depreciation incurred.

BUDGETARY HIGHLIGHTS

The Real Estate Foundation's budgeted amount of revenues for the year ended June 30, 2019 was $712,577. The actual amount of revenues was $405,398, which corresponds to an unfavorable variance of $307,179, or 43 percent. This is primarily attributable to an unfavorable variance of $252,715, or 42 percent, in transfers from the University. Salary expenses for staff and consulting services for the Gateway District were less than anticipated and therefore required less support.

The Real Estate Foundation's budgeted amount of expenses for the year ended June 30, 2019 was $712,577. The actual amount of expenses was $478,914, which represents a favorable variance of $233,663, or 33 percent. This is due to a favorable variance of $115,603, or 51 percent, in professional services for consulting related to the Gateway District that were less than anticipated**,** as well as a favorable variance of $70,946, or 18 percent, in salaries and related benefits as a result of staffing vacancies in the Program Director and Administrative Associate positions.

FLORIDA STATE UNIVERSITY REAL ESTATE FOUNDATION, INC.
Management's Discussion and Analysis
For the Year Ended June 30, 2019

CONDENSED FINANCIAL INFORMATION

The following table shows the Condensed Statements of Net Position as of June 30:

	2019	2018
Assets		
Current assets	$ 131,331	$ 389,008
Noncurrent assets	196,075	195,804
Total assets	**327,406**	**584,812**
Liabilities		
Current liabilities	8,613	241,886
Total liabilities	**8,613**	**241,886**
Deferred inflows of resources		
Deferred gift – life insurance	2,979	-
Total deferred inflows of resources	**2,979**	**-**
Net position		
Net investment in capital assets	193,096	195,804
Restricted - expendable	71,864	23,293
Unrestricted	50,854	123,829
Total net position	**$ 315,814**	**$ 342,926**

The following table summarizes the Condensed Statements of Revenues, Expenses and Changes in Net Position for the year ended June 30:

	2019	2018
Operating revenues	$ 642,184	$ 788,529
Operating expenses	(659,369)	(2,064,842)
Net operating loss	**(17,185)**	**(1,276,313)**
Net non-operating revenues	**(9,927)**	**266,584**
Change in net position	(27,112)	(1,009,729)
Net position, beginning of year	342,926	1,352,655
Total net position, end of year	**$ 315,814**	**$ 342,926**

ECONOMIC CONDITIONS AND OUTLOOK

The economic outlook of the Real Estate Foundation is affected by several factors, including support received from Florida State University (University or FSU), contributions, and various other revenue sources. While Florida's economy affects state appropriations to the University, which could impact the amount of support the Real Estate Foundation receives during the next year, it is expected that the University and the FSU Foundation will continue to support the Real Estate Foundation at levels consistent with the current year.

FLORIDA STATE UNIVERSITY REAL ESTATE FOUNDATION, INC.
Statement of Net Position
As of June 30, 2019

ASSETS		
Current assets		
Cash and cash equivalents	$	39,599
Due from related organizations		7,919
Prepaid expenses		8,813
Investments		75,000
Total current assets		**131,331**
Noncurrent assets		
Due from related organizations		2,979
Non-depreciable capital assets		143,000
Depreciable capital assets - net		50,096
Total noncurrent assets		**196,075**
Total assets		**327,406**
LIABILITIES		
Current liabilities		
Due to related organizations		432
Accounts payable		8,181
Total current liabilities		**8,613**
Total liabilities		**8,613**
DEFERRED INFLOWS OF RESOURCES		
Deferred gift – life insurance		2,979
Total deferred inflows of resources		**2,979**
NET POSITION		
Net investment in capital assets		193,096
Restricted - expendable		71,864
Unrestricted		50,854
Total net position	**$**	**315,814**

See Notes to Financial Statements.

FLORIDA STATE UNIVERSITY REAL ESTATE FOUNDATION, INC.
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2019

OPERATING REVENUES	
Transfers from related organizations	$ 410,694
Contributions	222,500
Rental income	8,700
Other income	290
Total operating revenues	**642,184**
OPERATING EXPENSES	
Salaries and related benefits	330,153
Transfers to related organizations	156,640
Professional services	110,092
Property carrying costs	23,815
Insurance	12,462
Travel and entertainment	10,938
Other rental	9,697
Utilities and maintenance	1,975
Printing and marketing	1,551
Equipment and supplies	1,031
Depreciation	542
License fees	473
Total operating expenses	**659,369**
Operating loss	**(17,185)**
NON-OPERATING REVENUES	
Investment losses	(9,927)
Total non-operating revenues	**(9,927)**
Change in net position	**(27,112)**
Net position, beginning of year	**342,926**
Net position, end of year	**$ 315,814**

See Notes to Financial Statements.

FLORIDA STATE UNIVERSITY REAL ESTATE FOUNDATION, INC.
Statement of Cash Flows
For the Year Ended June 30, 2019

Cash flows from operating activities		
Amounts received from others	$	9,139
Transfers from related organizations		67,847
Transfers to related organizations		(387,011)
Cash paid for property carrying costs		(17,951)
Cash paid for administrative expenses		(136,315)
Net cash used in operating activities		**(464,291)**
Cash flows from investing activities		
Proceeds from the sale of investments		163,314
Net cash provided by investing activities		**163,314**
Net decrease in cash and cash equivalents		(300,977)
Cash and cash equivalents, beginning of year		340,576
Cash and cash equivalents, end of year	**$**	**39,599**
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(17,185)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense		2,708
Non-cash contributions		(225,241)
Change in assets and liabilities:		
Due from related organizations		6,029
Prepaid expenses		(308)
Due to related organizations		(232,305)
Accounts payable		(968)
Deferred gift – life insurance		2,979
Net cash used in operating activities	**$**	**(464,291)**

See Notes to Financial Statements.

FLORIDA STATE UNIVERSITY REAL ESTATE FOUNDATION, INC.
Notes to Financial Statements
For the Year Ended June 30, 2019

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization – The Real Estate Foundation is a direct support organization (DSO) of Florida State University (University or FSU) established in 2011 pursuant to section 1004.28, Florida Statutes and regulations thereunder at 6C.9011 of the Florida Administrative Code to aid the advancement of the University and its objectives and purposes. The Real Estate Foundation's primary function is to receive gifts 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 University, the Florida State University Foundation (FSU Foundation), or such other entity as the Board may determine appropriate. The Real Estate Foundation is a non-profit Florida corporation exempt from tax under code section 501(c)(3) of the Internal Revenue Code.

Reporting Entity – In defining the Real Estate Foundation for financial reporting purposes, management has applied the requirements of Governmental Accounting Standards Board (GASB) No. 14, *the Financial Reporting Entity* and GASB No. 61, *the Financial Reporting Entity, Omnibus*. These statements establish the basis for the reporting entity and whether it is considered a component unit of another entity. The Real Estate Foundation would be a component unit of another entity if it is financially accountable to that unit. Financial accountability occurs when an entity appoints a voting majority of the board of the potential component unit and (1) is able to impose its will on the potential component unit and/or (2) is fiscally dependent and is in a relationship of financial benefit or burden with the potential component unit. An entity would also be considered financially accountable if the potential component unit is fiscally dependent and there is a financial benefit or burden relationship, regardless of whether the entity appoints the voting majority of the potential component unit's board. The Real Estate Foundation is a direct support organization of the University and has met all of the financial accountability criteria necessary to be considered a component unit of the University.

Change in Basis of Accounting – The Florida legislature passed and the governor signed into law Chapter 2018-004, Laws of Florida, a provision that changed Section 1004.28, Florida Statutes, which addresses university direct support organizations. With this change, the University board of trustees will have to approve all DSO board members. Under current accounting guidance, a key determinate in determining whether a DSO should report under the Financial Accounting Standards Board (FASB), the current basis of accounting, versus GASB is board control. With the change in the statute, the University has control of the board of the DSO and the FASB reporting model is no longer appropriate. The Real Estate Foundation converted to the GASB reporting model effective July 1, 2018. Management has evaluated the change and determined there was no impact to the overall net position as a result of the change in accounting standard.

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Basis of Presentation – As a discretely presented component unit of the University, the Real Estate Foundation prepares its financial statements according to the provisions of GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. This Statement establishes accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. These standards require public institutions to present management's discussion and analysis (MD&A), basic financial statements, notes to the financial statements, and required supplementary information other than MD&A.

The standards require the classification of net position into three categories defined as follows:

> <u>Net investment in capital assets</u> – This category of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets net of any related unspent debt proceeds.
>
> <u>Restricted net position</u> – This category represents the net position of the Real Estate Foundation which is restricted by constraints placed on the use by either externally imposed creditors, grantors, contributors or laws or regulations of other governments or imposed by law through enabling legislation. The Real Estate Foundation does not administer endowments on behalf of the University so restricted net position balances are expendable and represents funds that are subject to donor, grantor or other outside party restrictions to use for the benefit of various programs of the University.
>
> <u>Unrestricted net position</u> – This category of net position consists of funds that are available without restriction for carrying out the Real Estate Foundation's objectives that do not meet the definition of "net investment in capital assets" or "restricted".

The Real Estate Foundation's policy is to apply restricted resources before unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available for use.

Basis of Accounting – The Real Estate Foundation prepares its financial statements using the accrual basis of accounting in accordance with the accounting principles general accepted in the United States of America for government business-type activities. Accordingly, revenues are recognized when earned and expenses are recognized when the liability is incurred, regardless of the timing of the related cash flows.

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Fund Accounting – To help ensure that the restrictions placed on the use of resources and gifts, the amounts of the Real Estate Foundation are maintained in accordance with the principals of funds accounting. This is the procedure by which resources for various restrictions are classified for accounting and reporting purposes into funds established according their nature and purpose. Separate accounts are maintained for each fund in the general ledger. For reporting purposes, these funds are combined into one column.

Revenue Recognition – The Real Estate 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. Intentions to give, such as bequests, are not included in the financial statements.

Operating Revenues and Expenses – Operating revenues and expenses represent ongoing activities of the Real Estate Foundation, as well as ongoing activities that are in support of the University's programs. Contributions relate to the Real Estate Foundation's principal function, which is to receive gifts of real estate to hold, manage, lease, mortgage, develop, administer or sell for the benefit of the University. Operating revenues also include rental revenue from the leasing of facilities. Operating expenses include the salary costs and professional fees associated with the Real Estate Foundation's mission.

Cash and Cash Equivalents – Cash consists of deposits held by financial institutions. The Real Estate Foundation maintains its accounts with a financial institution that qualifies as a public depository pursuant to Chapter 280, Florida Statutes. There were no uninsured amounts as of June 30, 2019. The Real Estate Foundation considers all highly-liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Due from Related Organizations – Due from related organizations consists of amounts owed from the University or related entities. These balances are primarily related to property carrying costs and future life insurance distributions. These amounts are fully collectible and as such, no allowance is recorded.

Prepaid Expenses and Other Assets – Prepaid expenses and other assets include various prepaid costs and accounts receivable. Prepaid expenses are expenses paid in advance of actually incurring them. Accounts receivable are carried at their estimated collectible amounts.

Investments – The Real Estate Foundation's real estate investments are reported at fair value using quoted market prices or other fair value techniques as required by GASB Statement No. 72, *Fair Value Measurement and Application.*

Capital Assets – Capital assets with a cost equal to or greater than $5,000 are carried at cost or, if donated, at acquisition value as of the date of contribution. The Real Estate Foundation depreciates buildings and equipment using the straight-line method over the estimated useful lives of the assets. The useful life can range from five to thirty years. Items with a cost less than $5,000 are expensed.

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Impairment of Capital Assets – The Real Estate Foundation reviews its capital assets and considers impairment whenever events or changes in circumstance indicates such value may not be recoverable. As a result of any impairments, property with a permanent decrease in value is stated at the lower of carrying value or fair value. Management has determined that no impairments existed at June 30, 2019.

Contributions – Donations of gifts and real estate, including pledges, are recorded as revenue when all eligibility requirements are met. Amounts are recorded at fair value at the date of the gift.

In-kind Contributions – The Real Estate Foundation is provided the use of office space by the University. Contributions with reasonably determinable fair values have been included in revenues as in-kind contributions.

Rental Income – In accordance with guidance related to accounting for leases, income on leases is recognized on a straight-line basis.

Income Taxes – The Real Estate 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 Real Estate Foundation is classified as a Type I supporting organization under section 509(a)(3). The Real Estate 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.

Use of 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.

Management and Administrative Fees – The Real Estate Foundation assesses two fees pertaining to the appraised value of the asset at the time of gift acceptance, the administrative fee that is collected at the time of sale and the management fee that is collected annually and varies based on the effort required to manage and maintain the asset.

Budget – As set forth in the bylaws of the articles of incorporation, the Real Estate Foundation adopts an annual budget for all revenues and expenses which the Board of Directors approves. This budget must then be approved by the President of the University and sent to the University Board of Trustees for review and final approval.

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Recent Accounting Pronouncements – In June 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The new guidance is effective for fiscal years beginning after December 15, 2019; however, early adoption is permitted. The Real Estate Foundation is currently evaluating the impact of the adoption of Statement No. 87 on its financial statements.

The GASB has issued other new accounting guidance or modifications to, or interpretations of, existing accounting guidance. The Real Estate Foundation has considered the new un-adopted guidance and does not believe that any other new or modified guidance will have a material impact on the Real Estate Foundation's reported financial position or activities in the near term.

2. DEPOSITS AND INVESTMENTS

<u>Deposits</u>

At June 30, 2019, the bank balance of the Real Estate Foundation's deposits, consisting of cash held in non-interest bearing checking accounts was $39,599.

Custodial Credit Risk – Custodial credit risk exists when, in the event of a bank failure, the Real Estate Foundation's deposits may not be returned to it. The Real Estate Foundation's policy in regards to custodial credit risk is to maintain deposits in qualified public depositories pursuant to Chapter 280, Florida Statutes, and, accordingly, are entirely insured by federal depository insurance or collateralized pursuant to the Florida Security for Public Deposits Act.

2. DEPOSITS AND INVESTMENTS *(continued)*

Concentration of Credit Risk – The Real Estate Foundation maintains a cash account with a large financial institution that qualifies as a public depository pursuant to Chapter 280, Florida Statutes. A qualified public depository has a branch office(s) authorized to receive deposits in Florida, maintains FDIC deposit insurance, meets the specific statutory requirements of Section 280.17, Florida Statutes, and has been approved by the Florida Treasury's Bureau of Collateral Management to accept public funds for deposit. When public deposits are made in accordance with Chapter 280, no public depositor shall be liable for any loss thereof. Any losses to public depositors are satisfied first through any applicable deposit insurance, and then through the sale of collateral pledged or deposited by the defaulting depository. When necessary, assessments may also be made against other qualified public depositories of the same type as the depository in default.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect a deposit. The Real Estate Foundation does not maintain deposits in foreign currency.

Investments

The Real Estate Foundation receives real estate gifts, which are subsequently marketed and sold, with proceeds going to support the University in accordance with the donor's restrictions. At June 30, 2019, the investment balance of the Real Estate Foundation's portfolio, consisting of real estate held for resale is as follows:

Investment type	Location	Original Donated Value	Unrealized Gains (Losses)	Fair Market Value as of June 30, 2019
Vacant land	Hendersonville, NC	$ 62,500	$ 2,500	$ 65,000
Vacant land	St. Marys, GA	11,000	(1,000)	10,000
Total investments		**$ 73,500**	**$ 1,500**	**$ 75,000**

All real estate investments have an investment maturity of less than 1 year. Realized losses from the sale of investments were $11,427 for the year ended June 30, 2019.

Credit Risk – Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations. The Real Estate Foundation does not currently hold any investments to which this risk may apply.

Interest Rate Risk – Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. The Real Estate Foundation does not currently hold any investments to which this risk may apply and as a result, does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

3. FAIR VALUE MEASUREMENTS

The Real Estate Foundation prepares its financial statements according to the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. 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.

In determining the fair value, the Real Estate Foundation uses the market approach. Based on this approach, the Real Estate Foundation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable inputs. The Real Estate Foundation uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on observability of the inputs used in the valuation techniques, the Real Estate Foundation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

The Real Estate Foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and are disclosed in one of the following three categories:

- Level 1 inputs are quoted prices in active markets for identical assets;

- Level 2 inputs are observable, either directly or indirectly, such as quoted prices for similar assets, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the asset;

- Level 3 inputs are significant unobservable inputs.

All transfers between fair value hierarchy levels are recognized by the Foundation at the end of each reporting period. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment. The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risks associated with investment in those instruments.

3. FAIR VALUE MEASUREMENTS *(continued)*

The following is a description of the valuation methodologies used for instruments measured at fair value:

Real estate - The fair value of real estate held for resale consists of an examination of the markets and discussing valuations with local listing brokers.

The Real Estate Foundation's assets measured at fair value on a recurring basis as of June 30, 2019 are summarized as follows:

Description	Level 1	Level 2	Level 3	Fair Value
Real estate				
Land	$ -	$ -	$ 75,000	$ 75,000
Investments at fair value	**$ -**	**$ -**	**$ 75,000**	**$ 75,000**

4. CAPITAL ASSETS

A summary of changes in capital assets at June 30 is shown below:

	Beginning Balance	Increases	Decreases	Ending Balance
Non-depreciable capital assets				
Land	$ 143,000	$ -	$ -	$ 143,000
Total non-depreciable capital assets	**$ 143,000**	**-**	**-**	**$ 143,000**
Depreciable capital assets				
Buildings	$ 65,000	$ -	$ -	$ 65,000
Computer equipment	3,624	-	-	3,624
Total depreciable capital assets	68,624	-	-	68,624
Less: accumulated depreciation				
Buildings	(13,000)	(2,167)	-	(15,167)
Computer equipment	(2,820)	(541)	-	(3,361)
Total accumulated depreciation	(15,820)	(2,708)	-	(18,528)
Total depreciable capital assets	**$ 52,804**	**$ (2,708)**	**$ -**	**$ 50,096**
Total capital assets	**$ 195,804**	**$ (2,708)**	**$ -**	**$ 193,096**

Total depreciation expense for the year ended June 30, 2019 was $2,708.

5. OPERATING LEASES

The Real Estate Foundation has an operating lease agreement relating to parking facilities, with an original expiration date of June 30, 2020 and an option to renew for five additional one-year terms. Lease expense totaled $8,700 for the year ended June 30, 2019. Commitments relating to operating leases for each of the next five years and thereafter are as follows:

For the fiscal year ended June 30,		
2020	$	8,700
Thereafter		-
Total minimum lease payments	**$**	**8,700**

Income received for this activity through a sublease agreement is transferred to the University and totaled $8,700 for the year ended June 30, 2019.

6. RETIREMENT PLAN

The Real Estate Foundation personnel are employees of the University and are eligible to enroll as members of the State administered Florida Retirement System (FRS). Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 605, Florida Administrative Code; wherein plan eligibility, contributions, and benefits are defined and described in detail. The FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), with a Deferred Retirement Option Program (DROP), and a defined contribution plan, referred to as the FRS Investment Plan (Investment Plan).

Benefits of the Plan vest as of six years of service or eight years for new employees enrolled after July 1, 2011. All members are eligible for normal retirement benefits based on the plan definition of normal retirement date which is determined on the date they enrolled in the plan. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before the specified retirement age. The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. Upon termination of employment, the participant receives the total DROP benefits and begins to receive previously determined retirement benefits.

6. RETIREMENT PLAN (*continued)*

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. University employees already participating in the State University System Optional Retirement Program or DROP are not eligible to participate in this program. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee contributions that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.).

Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service.

Financial statements and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement's website (www.frs.myflorida.com).

It has been determined that the Real Estate Foundation is not a payor fund for the purposes of liquidating the pension liability. An actuarial valuation has been performed for the plan. The Real Estate Foundation's employees were included in the actuarial analysis and are part of the total pension liability and net pension liability disclosed in the footnotes and required supplementary information of the University's Annual Report. The University does not determine a separate liability for the Real Estate Foundation employees and as a result, there is no net pension liability recorded in these financial statements.

The cost of the defined benefit pension plan for the Real Estate Foundation's current employees is paid by the University and recorded by the Real Estate Foundation as an operating transfer from related organizations and an operating expense. Retirement contributions were $22,350 for the year ended June 30, 2019.

7. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Pursuant to the provisions of Section 112.0801, Florida Statutes, all employees who retire from the University are eligible to participate in the State Group Health Insurance Program, an agent multiple-employer defined-benefit plan (Plan). The University subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible.

7. OTHER POSTEMPLOYMENT BENEFITS PAYABLE *(continued)*

A stand-alone report is not issued, and the Plan information is not included in the report of a public employee retirement system or another entity.

Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. Premiums necessary for funding the Plan each year on a pay-as-you-go basis are established by the Governor's recommended budget and the General Appropriations Act. The University provided required contributions toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums.

It has been determined that the Real Estate Foundation is not a payor fund for the purpose of liquidating the net OPEB liability. An actuarial valuation has been performed for the plan. The Real Estate Foundation's employees were included in the actuarial analysis of the valuation of the OPEB Plan and are part of the OPEB disclosed in the footnotes and required supplementary information of the University's Annual Report. The University does not determine a separate liability for the Real Estate Foundation employees and as a result, there is no OPEB cost, percentage of annual OPEB cost contributed to the Plan, or the net OPEB liability recorded in these financial statements.

8. RISK MANAGEMENT PROGRAMS

The Real Estate Foundation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Property and general liability coverage are provided through commercial insurance carriers, and management continuously reviews the limits of coverage to ensure that they are adequate. No settlements have exceeded coverage in place during the past three fiscal years.

9. INTERFUND BALANCES AND TRANSFERS

Interfund balances consisted of the following at June 30, 2019:

Due to operating fund from:	
Investment funds	$ 4,075
Capital asset funds	7,337
Total due to operating fund from others	**$ 11,412**

These balances resulted from the time lag between the dates that the interfund reimbursable expenditures occur, transactions are recorded in the accounting system, and payments to the operating fund are made. Balances are reimbursed quarterly or at the time of sale as resources are available.

9. INTERFUND BALANCES AND TRANSFERS *(continued)*

Interfund transfers consisted of the following for the year ended June 30, 2019:

Transfers to operating funds from:	
Investment funds	$ 17,710
Capital asset funds	15,339
Total transfers to operating fund	**$ 33,049**

Transfers to operating funds are used to move the support received from beneficiaries to the operating fund that expended the cash on behalf of that fund. Transfers are made quarterly or at the time of sale as resources are available.

Transfers from operating funds to:	
Investment funds	$ 12
Capital asset funds	5,834
Total transfers from operating fund	**$ 5,846**

Transfers from operating funds are used to provide support to those funds that end the period in a cash deficit. Transfers are made quarterly.

10. RELATED PARTY TRANSACTIONS

The Real Estate Foundation is a DSO of the University which is organized and operated exclusively to receive, hold, invest, provide guidance and administer property for the benefit of the University and its DSOs.

Florida State University

The University provides monetary support to the Real Estate Foundation to support salaries, benefits, professional fees, operations and carrying costs of real estate. The Real Estate Foundation conducts due diligence and studies on properties and real estate projects that may involve or require University resources.

The University provides support to the Real Estate Foundation in the form of contributed facilities. The Real Estate Foundation occupies 541 square feet of office facilities in Tallahassee, Florida, the use of which is provided without charge by the University. The rental value of the facilities was estimated based on current rental rates for comparable properties in the area. In-kind contributions of $8,648 have been recognized as revenues and expenses in the Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2019.

The University also leases a parking garage to the Real Estate Foundation and receives lease payments in return. See Note 5 for more details.

10. RELATED PARTY TRANSACTIONS *(continued)*

Florida State University Foundation

The FSU Foundation provides monetary support to the Real Estate Foundation to support the administration, acquisition and carrying costs of real estate. The Real Estate Foundation receives and holds real estate property to be sold and transferred to the Foundation. The Real Estate Foundation also provides guidance to the FSU Foundation on real estate gift transactions.

In April 2013, the FSU 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, the Real Estate Foundation has not received any advances nor accrued any payable related to this line of credit.

Florida State University Research Foundation

The purpose of the FSU Research Foundation is to promote and assist the research and training activities of the University through income from contracts, grants, and other sources, including income derived from the development and commercialization of the University's work products. The FSU Research Foundation provides monetary support to the Real Estate Foundation to support acquisition and carrying costs of real estate that are to its benefit.

Transactions between the Real Estate Foundation, University and its related DSOs for the year ended June 30, 2019 were as follows:

Transfers from related organizations:	
University	$ 345,432
FSU Foundation	64,438
FSU Research Foundation	824
Total transfers from related organizations	**$ 410,694**
Transfers to related organizations:	
University	$ 8,700
FSU Foundation	147,940
Total transfers to related organizations	**$ 156,640**

These transfers include both cash and noncash support.

10. RELATED PARTY TRANSACTIONS *(continued)*

Amounts due from the University and related organizations at June 30, 2019 were as follows:

FSU Foundation	$	10,467
FSU Research Foundation		351
University		80
Total accounts receivable	**$**	**10,898**

Amounts due to the University and related organizations at June 30, 2019 were as follows:

FSU Foundation	$	432
Total accounts receivable	**$**	**432**

11. SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 13, 2019, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

A gift of real estate property valued at $1,450,000 was donated by a private party to the Real Estate Foundation on August 26, 2019. An additional gift of real estate property valued at $40,000 is expected to be donated by a private party to the Real Estate Foundation be the end of the calendar year. The projected impact to the Statement of Net Position will be an increase to Investments of $1,490,000.

Thomas Howell Ferguson P.A.
Certified Public Accountants

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

The Board of Directors
Florida State University Real Estate Foundation, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Florida State University Real Estate Foundation, Inc. (the Real Estate Foundation), which comprise the statement of net position as of June 30, 2019, and the related statements of revenues, expenses, and changes in net position and cash flows for the year ended, and the related notes to the financial statements, and have issued our report thereon dated September 13, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Real Estate 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 Real Estate Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Real Estate Foundation's internal control.

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

Our consideration of internal control 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.

Thomas Howell Ferguson P.A.
Certified Public Accountants

Compliance and Other Matters

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

Purpose of this Report

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

Thomas Howell Ferguson P.A.

Tallahassee, Florida
September 13, 2019