

# **Florida State University Foundation, Inc.**

Florida Single Audit Compliance Report  
June 30, 2021

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RSM US LLP

**Report on Compliance for the Major State  
Project, Report on Internal Control Over Compliance; and  
Report on Schedule of Expenditures of State Financial Assistance  
Required by State of Florida Chapter 10.700, *Rules of the Auditor General***

**Independent Auditor's Report**

To the Board of Trustees  
Florida State University Foundation, Inc.

***Report on Compliance for the Major State Financial Assistance Project***

We have audited Florida State University Foundation, Inc.'s (the Foundation) compliance with the types of compliance requirements described in the Department of Financial Services' State Projects Compliance Supplement that could have a direct and material effect on the Foundation's major state financial assistance project for the year ended June 30, 2021. The Foundation's major state financial assistance project is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with state statutes, regulations and the terms and conditions of its state financial assistance applicable to its state projects.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Foundation's major state financial assistance project based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.700, *Rules of the Auditor General*. Those standards and Chapter 10.700, *Rules of the Auditor General*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major state project. However, our audit does not provide a legal determination on the Foundation's compliance.

***Opinion on the Major State Project***

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state financial assistance project for the year ended June 30, 2021.

**Report on Internal Control Over Compliance**

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation’s internal control over compliance with the types of requirements that could have a direct and material effect on the major state financial assistance project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major state project and to test and report on internal control over compliance in accordance with Chapter 10.700, *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation’s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Chapter 10.700, *Rules of the Auditor General*. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of State Financial Assistance**

We have audited the financial statements of Florida State University Foundation, Inc. as of and for the year ended June 30, 2021, and have issued our report thereon dated November 10, 2021, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by Chapter 10.700, *Rules of the Auditor General* 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 audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state financial assistance is fairly stated, in all material respects, in relation to the financial statements as a whole.

*RSM US LLP*

Jacksonville, Florida  
November 10, 2021

Florida State University Foundation, Inc.

Schedule of Expenditures of State Financial Assistance  
Year Ended June 30, 2021

<u>State Grantor / Program Title</u>	<u>CSFA Number</u>	<u>Expenditures</u>	<u>Transfers to Subrecipients</u>
Florida Department of Highway Safety and Motor Vehicles – Florida State University License Plate Program	76.033	\$ 1,519,998	<u>\$ 1,378,517</u>
Florida Department of Education and Commissioner of Education – University Major Gifts Program	48.074	<u>9,210,023</u>	
<b>Total Expenditures of State Financial Assistance</b>		<u>\$ 10,730,021</u>	

See Notes to Schedule of Expenditures of State Financial Assistance.

**Florida State University Foundation, Inc.**

**Notes to Schedule of Expenditures of State Financial Assistance  
Year Ended June 30, 2021**

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**Note 1. Basis of Presentations**

The accompanying schedule of expenditures of state financial assistance (the Schedule) includes the state financial assistance project activity of Florida State University Foundation, Inc. (the Foundation) under programs of the State of Florida for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Chapter 10.700, *Rules of the Auditor General*. Because the Schedule presents only a selected portion of the operations of the Foundation, it is not intended to and does not present the net position, changes in net position or cash flows of the Foundation.

**Note 2. Summary of Significant Accounting Policies**

Expenditures: Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles established by the State of Florida Department of Financial Services, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Florida State University License Plate Program: The expenditures under the state license plate program in the Schedule represent \$1,378,517 in scholarship expenditures and \$141,481 in fundraising expenditures. Receipts from the program during the year ended June 30, 2021 of \$1,926,204 are allocated to be spent for scholarships and for fundraising, consistent with the allocation plan, as amended, submitted to the Board of Governors of the State University System of Florida. Interest income on receipts and unexpended amounts from prior years totaled \$22,169.

Receipts for scholarships and fundraising exceeded expenditures during the year ended June 30, 2021 by \$428,375. At June 30, 2021, the Foundation had \$1,670,932 in collected, but unexpended funds related to scholarships and fundraising.

University Major Gifts Program: The University Major Gifts Program has been temporarily suspended by the State of Florida, and no funding was received from the state in the form of matching funds during the year ended June 30, 2021. The expenditures under the University Major Gifts Program in the accompanying schedule of expenditures of state financial assistance represent expenditures of earnings on endowments that have received state matching funds or have been submitted for matching. These expenditures include amounts spent from earnings on both the state match portion and the private donor portions of the endowments.

**Florida State University Foundation, Inc.**

**Schedule of Findings and Questioned Costs  
Year Ended June 30, 2020**

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**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	Yes	<u>        </u>	X	No
Significant deficiency(ies) identified?	Yes	<u>        </u>	<u>        </u>	None Reported
Noncompliance material to financial statements noted?	Yes	<u>        </u>	X	No

**State Financial Assistance**

Internal control over major project:

Material weakness(es) identified?	Yes	<u>        </u>	X	No
Significant deficiency(ies) identified?	Yes	<u>        </u>	X	None Reported

Type of auditor’s report issued on compliance for major state financial assistance project: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the State of Florida Chapter 10.700, *Rules of the Auditor General*?

	Yes	<u>        </u>	X	No
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Identification of major state financial assistance project:

	<b>CSFA No.</b>	<b>Name of State Financial Assistance Project</b>
	48.074	University Major Gifts Program

Dollar threshold used to distinguish between type A and type B state financial assistance projects:

	\$	<u>        </u> 750,000 <u>        </u>
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**Section II – Financial Statement Findings**

**2021-001 Valuation of Alternative Investments**

Criteria: Accounting principles generally accepted in the United States require that investments are reported at fair value on the statement of net position.

Condition: In auditing the fair value of the Florida State University Foundation’s (Foundation) investments, we observed that in total, the fair value of the Foundation’s alternative investments appeared to be understated. Upon this observation, we recommended that the Foundation’s management reperform their valuation procedures using information that had become available subsequent to their original valuation. After the completion of this revaluation, management determined that the fair value of alternative investments had originally been understated by approximately \$29 million.

Context: This condition is limited to the alternative investment valuation cycle.

**Florida State University Foundation, Inc.**

**Schedule of Findings and Questioned Costs  
Year Ended June 30, 2020 (Continued)**

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Cause: On June 30, 2021 approximately 92% of the Foundation's investments were valued using net asset value (NAV) as a practical expedient for determining fair value. To determine the NAV of individual investments, the Foundation's management relies on information from individual investment managers and the investment custodian. Historically it can take up to 90 days for the Foundation to receive the information necessary to value its complete portfolio of alternative investments.

To expedite the closing process and preparation of its annual financial statements, the Foundation has adopted an accounting convention in which the NAV of its alternative investments as of March 31 is rolled forward and used to estimate the NAV as of June 30. This practice is common among public and private foundations and has historically resulted in a materially accurate estimate of NAV of the Foundation's alternative investments on June 30.

During the second calendar quarter of 2021, the alternative investment market experienced growth that exceeded historical norms. The convention the Foundation employs to estimate NAV on June 30 does not include an analysis of second quarter market conditions. As a result, the Foundation's estimate of its portfolio's NAV was inaccurate.

Effect: The fair value of the Foundation's investments was understated in its accounting records and draft financial statements. This understatement was corrected through an audit adjustment.

Recommendation: We recommend that the Foundation incorporate a control activity into its closing process in which the alternative investment market is monitored during the second calendar quarter. Monitoring activities should focus on signs of market volatility that could render the Foundation's process for estimating NAV on June 30 inaccurate. If market volatility is detected, it may become necessary to postpone the annual closing process until the information necessary to determine actual NAV on June 30 becomes available.

Monitoring activities could include increased communication with investment advisors, collaboration with peer organizations, and monitoring of industry publications.

Response / Planned Corrective Action: We agree with the auditors' comments, and acknowledge that we should refine the valuation process as it pertains to the alternative investments. The private equity allocation has increased over time and is now a significant portion within the overall investment portfolio. The Chief Financial Officer, Controller, and Director of Investments will include an additional component to our current valuation process to ensure the alternative investments are valued at fair market value as required by Governmental Accounting Standards. We will extend our year end closing process to allow sufficient time to properly assess market conditions and to obtain a larger percentage of our investment manager final balances prior to closing.

**Section III – Findings and Questioned Costs for State Financial Assistance**

No matters were reported.

**Section IV – Other Reporting**

1. No Summary Schedule of Prior Audit Findings is presented because there were no prior audit findings related to state financial assistance projects.
2. There was no management letter or control deficiency letter issued for the year ended June 30, 2021 and there were no matters required to be reported in these letters.