

**FLORIDA ATLANTIC UNIVERSITY
RESEARCH CORPORATION, A
COMPONENT UNIT OF FLORIDA
ATLANTIC UNIVERSITY**

FINANCIAL STATEMENTS

June 30, 2006 and 2005

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**INDEPENDENT AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Board of Directors
Florida Atlantic University Research Corporation

We have audited the accompanying statements of net assets of Florida Atlantic University Research Corporation (the Corporation), a component unit of Florida Atlantic University as of June 30, 2006 and 2005 and the statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Florida Atlantic University Research Corporation as of June 30, 2006 and 2005 and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the Corporation adopted the provisions of Governmental Accounting Standards Board Statement No. 35, Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities and related pronouncements as of and for the year ended June 30, 2005.

In accordance with Government Auditing Standards, we have also issued our report dated January 25, 2007, on our consideration of Florida Atlantic University Research Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audits were made for the purpose of forming an opinion on the basic financial statements of Florida Atlantic University Research Corporation taken as a whole. The accompanying schedule of expenditures of federal awards, appearing on page 23, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis on pages 3 through 5 is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

Mayer Hoffman McCann P.C.

January 25, 2007
Boca Raton, Florida

The management's discussion and analysis of the Florida Atlantic University Research Corporation ("the Corporation") financial statements provides an overview of the Corporation's financial activities for the fiscal year ended June 30, 2006. The financial statements are comprised of the following:

- Management's Discussion and Analysis
- Basic Financial Statements:
 - Statement of Net Assets
 - Statement of Revenues, Expenses, and Changes in Net Assets
 - Statement of Cash Flows
 - Notes to the Financial Statements

This management's discussion and analysis is designed to focus on current activities, resulting change, and currently known facts. Please read it in conjunction with the basic financial statements and the notes to financial statements. Responsibility for the completeness and fairness of this information rests with the Corporation's management. Comparative analysis of financial data for the Corporation for the 2005-06 and 2004-05 fiscal years is presented in the management's discussion and analysis.

One of the most important questions asked about the Corporation's finances is whether the Corporation, as a whole, is better off or worse off as a result of the year's activities. The statement of net assets and the statement of revenues, expenses, and changes in net assets report information on the Corporation as a whole and on its activities in a way that help answer this question. These statements present financial information in a form similar to that used by corporations. Examining the Corporation's net assets is one way to evaluate the Corporation's financial health. Over time, increases or decreases in net assets can indicate the improvement or deterioration of the Corporation's financial condition when considered along with nonfinancial information.

The statement of net assets presents the assets, liabilities, and net assets of the Corporation as of the end of the fiscal year. The statement of net assets portrays the Corporation's financial condition at only one point in time, i.e., June 30, 2006. The purpose of the statement of net

assets is to present to the readers of the financial statements a fiscal snapshot of the Florida Atlantic University Research Corporation. The statement of net assets presents end-of-year data concerning assets (current and noncurrent), liabilities, and net assets (assets minus liabilities).

From the data presented, readers of the statement of net assets are able to determine the assets available to continue the operations of the Corporation. They are also able to determine how much the Corporation owes vendors and other entities. Finally, the statement of net assets provides a picture of the net assets (assets minus liabilities) and their availability for use by the Corporation.

The Corporation has net assets of \$68,114 as of the fiscal year ended June 30, 2006, which was a decrease of \$69,061 in net assets. The Corporation's expenses exceeded revenues resulting in the decrease in net assets. Revenues from all major sources (federal and nongovernmental grants and contracts and royalties) increased.

The Governmental Accounting Standards Board is the governing entity that issues guidelines under which the Corporation reports financial statements. This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

Net assets are divided into two categories. The first category, restricted net assets, are available for use by the Corporation, but must be spent for purposes as determined by grantors and external entities that have placed time or purpose restrictions on the use of the assets. The second category is unrestricted net assets, which are net assets available to the Corporation for any lawful purpose. For details of the Corporation's net assets, the reader should review the statement of net assets and the notes to financial statements.

Changes in total net assets are summarized based on the related types of financial activity, and are presented in the statement of revenues, expenses, and changes in net assets. The purpose of the statement is to present the revenues, both operating and nonoperating, and expenses and explain how the Corporation's net assets changed between fiscal years. For details of the Corporation's financial activities, the reader should review the statement of revenues, expense, and changes in net assets and the notes to financial statements.

The primary purpose of the statement of cash flows is to provide an understanding of the Corporation's cash activity and its relationships to its various financial activities, operations, and overall changes in cash balances. Analyzing the statement is another way to assess the financial health of the Corporation. The statement of cash flows presents detailed information about the cash activity of the Corporation during the year. The statement of cash flows also helps users assess the Corporation's ability to generate cash in the future and its ability to meet obligations as they come due. Cash and cash equivalents are fully explained in notes to the financial statements. For details of the Corporation's cash activity, the reader should review the statement of cash flows.

The economic position of the Florida Atlantic University Research Corporation is strong and closely tied to the research efforts of Florida Atlantic University. It appears likely that the cooperative agreement between NASA and Florida Atlantic University Research Corporation will end as of June 30, 2007, and will not be renewed beyond this date. Discontinuation of the NASA agreement, which represents about 65 percent of the Corporation's total operating revenues and expenditures, will have a significant effect on the total revenues and expenditures. However, due to the nature of this agreement, all moneys that the Corporation received from NASA were subcontracted to Florida Atlantic University, leaving net results of the operations of the Corporation unaffected.

Other than the possible discontinuation of the NASA grant, the Corporation is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during the current fiscal year other than those uncertainties having the potential for the interruption of virtually all types of normal business operations.

FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION
A COMPONENT UNIT OF FLORIDA ATLANTIC UNIVERSITY
STATEMENTS OF NET ASSETS
June 30, 2006 and 2005

	2006	2005
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 305,699	\$ 350,410
Accounts receivable	59,400	73,500
Due from NASA	21,370	332,048
Due from FAU	60,924	60,924
Interest receivable	1,361	2,017
Total Current Assets	448,754	818,898
Noncurrent Assets:		
Equipment, net	11,129	13,064
Patent costs, net	1,590	1,925
Total Noncurrent Assets	12,719	14,989
TOTAL ASSETS	\$ 461,473	\$ 833,888
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 100,427	\$ 23,372
Royalties payable	57,060	57,060
Prepaid program fees	140,655	277,519
Due to FAU - NASA	20,384	263,929
Due to FAU - School of Nursing	74,833	74,833
Total Current Liabilities	393,359	696,713
TOTAL LIABILITIES	393,359	696,713
NET ASSETS		
Invested in capital assets	12,719	14,989
Restricted	134,818	117,299
Unrestricted	(79,423)	4,887
Total Net Assets	68,114	137,175
TOTAL LIABILITIES AND NET ASSETS	\$ 461,473	\$ 833,888

See Notes to Financial Statements

FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION
A COMPONENT UNIT OF FLORIDA ATLANTIC UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years ended June 30, 2006 and 2005

	2006	2005
REVENUES		
Operating Revenues:		
Federal grants and contracts	\$ 1,908,079	\$ 1,464,840
Nongovernmental grants and contracts	388,927	564,655
Program revenue	574,239	-
Royalties	65,847	120,009
	2,937,092	2,149,504
EXPENSES		
Operating Expenses:		
Contractual and program expenses	2,790,502	1,971,949
Royalty expenses	46,333	101,084
Depreciation expense	1,935	617
Amortization expense	335	335
Other operating expense	180,976	47,418
	3,020,081	2,121,403
	(82,989)	28,102
NONOPERATING REVENUES		
Interest income	13,928	21,826
	(69,061)	49,928
	137,175	87,247
	\$ 68,114	\$ 137,175

See Notes to Financial Statements

FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION
A COMPONENT UNIT OF FLORIDA ATLANTIC UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants and contracts	\$ 2,484,920	\$ 1,831,466
Program revenue	574,239	-
Royalties	65,847	120,009
Payments to suppliers for goods and services	(2,940,756)	(2,097,408)
NET CASH FLOWS FROM OPERATING ACTIVITIES	184,250	(145,933)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	14,584	20,554
Investment in property, plant and equipment	-	(8,792)
NET CASH FLOWS FROM INVESTING ACTIVITIES	14,584	11,762
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (repayment) to/from FAU	(243,545)	108,257
NET CASH FLOWS FROM FINANCING ACTIVITIES	(243,545)	108,257
NET INCREASE (DECREASE) IN CASH	(44,711)	(25,914)
CASH, BEGINNING OF YEAR	350,410	376,324
CASH, END OF YEAR	\$ 305,699	\$ 350,410
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH FROM OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (82,989)	\$ 28,102
Adjustments to reconcile net operating income (loss) to net cash from operating activities:		
Depreciation and amortization	2,270	512
Change in assets and liabilities:		
Accounts receivable	14,100	35,295
Due from NASA	310,678	201,532
Accounts payable	77,055	(13,518)
Royalties payable	-	52,584
Prepaid program fees	(136,864)	764
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 184,250	\$ 305,271

See Notes to Financial Statements

**FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS**

(1) Nature of activities and significant accounting policies

Nature of Activities - The Florida Atlantic Research Corporation (the Corporation) is a not-for-profit corporation and a university direct support organization established by Florida Atlantic University (the University) in 1990. The Corporation was organized for the purposes of promotion and encouragement of, as well as to provide assistance to, the research activities of the University's faculty, staff and students. The Corporation has been granted rights and responsibilities for the development, protection and commercial application of defined and selected intellectual property. In consideration of their efforts, the Corporation is entitled to a portion of the royalties and/or license fees or other revenue for the benefit of the University.

The Corporation also accepts and administers contracts and grants from private industry, foundations and other agencies whenever it is required by the granting agency, or when it is in the best interest of the University.

Basis of Presentation - Since it is a direct support organization for, and a component unit of, Florida Atlantic University, the Corporation's accounting policies conform to generally accepted accounting principles applicable to colleges and universities as prescribed by the Governmental Accounting Standards Board (GASB). The National Association of College and University Business Officers (NACUBO) also provides the University with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB). In November 1999, the GASB issued Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. This Statement includes 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*. GASB Statement No. 35 allows public colleges and universities the option of reporting as a special-purpose government either engaged in only business-type activities, engaged in only governmental activities, or engaged in both governmental and business-type activities. The public universities of the State, including Florida Atlantic University, elected to report as entities engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entity-wide reporting including the following components:

- Management's Discussion and Analysis
- Basic Financial Statements:
 - Statement of Net Assets
 - Statement of Revenues, Expenses, and Changes in Net Assets
 - Statement of Cash Flows
 - Notes to Financial Statements

**FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS**

(1) Nature of activities and significant accounting policies (continued)

Basis of Accounting - Basis of accounting refers to when revenues, expenses, and related assets and liabilities are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The Corporation's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, include time requirements, are met.

The Corporation's principal operating activity consists of research and development. Operating revenues and expenses generally include all fiscal transactions directly related to these activities plus administration and depreciation on capital assets. Nonoperating revenues include investment income.

The Corporation follows Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

The statement of net assets is presented in a classified format to distinguish between current and long-term assets and liabilities. When both restricted and unrestricted resources are available to fund specific programs, grants, etc., it is the Corporation's policy to apply the restricted resources to such programs first, followed by the use of the unrestricted resources. The statement of revenues, expenses, and changes in net assets is presented by major sources. The statement of cash flows is presented using the direct method and is in compliance with GASB Statement No. 9, *Reporting Cash Flow for Proprietary and Non-expendable Trust Funds*.

Cash and cash equivalents - During the year, the excess cash of the Corporation was placed in an interest - bearing account at a qualified depository bank and with the Florida State Treasury. At year end, the Corporation's funds on hand were distributed as follows:

	2006	2005
Equity in the State of Florida's Local Government		
Surplus Trust Funds Investment Pool	\$ 305,699	\$ 350,410

**FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS**

(1) Nature of activities and significant accounting policies (continued)

Florida Statutes provide guidelines within which units of local governments may invest their surplus funds. The carrying amount of deposits and equity in the investment pool is a reasonable estimate of fair value at June 30, 2006 and 2005.

Capital assets - Capital assets are recorded at cost. Depreciation is provided over the estimated useful lives of each of the respective assets using the straight - line method.

Capital assets consist of the following at June 30:

	<u>2006</u>	<u>2005</u>	Estimated Useful Life in Years
Signs	\$ 5,302	\$ 5,302	30
Equipment	8,792	8,792	5
	<u>14,094</u>	<u>14,094</u>	
Less accumulated depreciation	<u>(2,965)</u>	<u>(1,030)</u>	
	<u>\$ 11,129</u>	<u>\$ 13,064</u>	

Intangible assets and amortization - The cost of patents obtained is being amortized using the straight-line method over the benefit life of the agreement. The annual amortization expense charged to operations for the years ended June 30, 2006 and 2005 was \$335.

Research and development - Research and development costs are charged to operations when incurred and are included in operating expenses.

Although grant agreements requiring matching expenditures are between the Corporation and the Grantor, the University, as the subrecipient, incurs research and development costs related to these matching requirements. Because the Corporation is a direct support organization for the University, these matching expenditures are not recorded by the Corporation.

Income tax status - The Corporation is currently exempt from income taxes under the provisions of Internal Revenue Code Section 501(c)(3).

Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS**

(2) Patent Costs

Patent costs consist of the following at June 30:

	2006	2005
Patents	\$ 6,697	\$ 6,697
Less: accumulated amortization	(5,107)	(4,772)
Total patent costs	\$ 1,590	\$ 1,925

The patents have an original term of 20 years, of which 4.75 years remain at June 30, 2006.

(3) Federal Grants and Contracts

A grant is subject to annual renewal and periodic amendment and requires the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of the funds to the grantor. Although that is a possibility, the Corporation deems the contingency remote.

National Aeronautics and Space Administration (NASA)

Effective November 1, 2001, the Corporation was awarded a research grant from NASA for research of commercial development of space communications technology. The grant is to be funded for up to five years for an undetermined total amount, contingent upon availability of funds, scientific progress, and continued relevance to NASA programs. Funds available during the initial period from November 1, 2001 to October 31, 2002 were determined to be \$1,000,000. In November 2002, the award was increased by \$1,000,000 for a total of \$2,000,000 and extended to October 31, 2003. In December 2003 the award was increased by \$388,000 for a total of \$2,388,000 and extended through October 31, 2004. In January 2004 the award was increased by \$268,000 for a total of \$2,656,000. During the year ended June 30, 2005, the award was increased by \$2,426,381. During the year ended June 30, 2006, the award was increased by an additional \$946,000 for a total of \$6,028,381 and extended through October 31, 2007.

The Corporation has access to funds through the Automated Clearinghouse (ACH) whereby funds requested are automatically transferred into the Corporation's bank account. From grant inception through June 30, 2006, the Corporation had received funds totaling \$5,894,030 and expended funds totaling \$5,915,400 for the grant.

The funds received from ACH are immediately transferred to the University as a sub-recipient. The University is responsible for reporting to the Corporation its compliance with the grant requirements quarterly. As of June 30, 2006, the Corporation was due \$21,370 from NASA.

**FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS**

(4) State Grants

Florida Atlantic Research and Development Authority

In May 2005, the Corporation received a \$25,000 grant from the Florida Atlantic Research and Development Authority. Of that amount, \$8,000 was restricted for support of "Leeza's Place" to establish research for caregiver support at the Memory and Wellness Center. The remaining \$17,000 is restricted to providing grants identified for projects consistent with the goals of the Authority; economic growth through research.

As of June 30, 2006, none of the grant funds had been expended. The unexpended funds are included in prepaid program fees on the accompanying Statements of Net Assets.

(5) Nongovernmental Grants and Contracts

Palm Healthcare Foundation

In July 2004, the Corporation (the Grantee) entered into an agreement by which it will receive a \$190,500 grant over two years from the Palm Healthcare Foundation (the Foundation) for development and implementation of the Nursing Faculty Development Initiative, a project of the Higher Education Committee of the Nursing Education Initiative (the NEI), which is a collaborative of Palm Beach County, Florida healthcare providers, facilities, consultants, schools, colleges, universities, and community-based organizations with an interest in nursing. The terms of the grant provide that, on each anniversary date of the agreement, the Foundation shall review the role and performance of the Grantee and determine by mutual consent and in accordance with the priorities of the Higher Education Committee and the NEI, whether to continue such relationship for another year.

From grant inception through June 30, 2006, the Corporation had received funds totaling \$94,649 and expended funds totaling \$96,022 for the grant.

Mathew Forbes Rohmer Foundation

In September 2004, the Corporation received a \$30,000 grant from the Mathew Forbes Rohmer Foundation to provide funding for the FAU Center for Rare and Genetic Neurological Diseases.

As of June 30, 2006, none of the grant funds had been expended. The unexpended funds are included in prepaid program fees on the accompanying Statements of Net Assets.

**FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS**

(5) Nongovernmental Grants and Contracts (continued)

Nongovernmental grants and contract income for the years ended June 30 consisted of the following:

<u>Account</u>	<u>Amount</u>	
	<u>2006</u>	<u>2005</u>
Palm Healthcare Foundation	\$ 51,781	\$ 44,241
Panavision HDMax Camera Re-design	53,675	9,841
Panavision Gamma	122,480	-
ITC HD Max Camera	-	304,320
IACUC 101/102 Conference	-	28,460
Motorola	27,429	22,909
Motorola	44	52,040
Motorola	29,136	-
Motorola	-	21,212
Software Testing	-	11,343
FIHMC Affiliation	62,195	45,872
Allegany Franciscan Foundation	28,899	-
Other	13,288	24,417
Total	<u>\$ 388,927</u>	<u>\$ 564,655</u>

(6) Program Revenue

Program revenue is collected from clients of the School of Nursing's Memory and Wellness Center. It consists of \$348,722 in daycare fees and \$231,606 in payments from clients or their insurers for clinic visits.

(7) Royalty Agreements

Edge Tech

In 1998, the Corporation entered into a twenty-year license agreement with Edge Tech, then a division of Old Vic, Inc., whereby the licensee (Edge Tech) had the right to commercialize, exploit and develop a product using the specified patented technology owned by the Corporation. Edge Tech was required to make a payment of \$500 at signing. The agreement provides for sales-based royalties of \$100 for each product sold using the technology.

By way of separate agreement, the Corporation shares this royalty income with the University and the inventor; the inventor receives the first \$5,000 in royalty income. Of the remaining royalty income, the inventor receives 50% and the Corporation retains 50% of net cumulative royalty income.

**FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS**

(7) Royalty Agreements (continued)

In accordance with the licensing agreement the Corporation received \$1,800 and \$2,400 during the years ended June 30, 2006 and June 30, 2005, respectively. Of the royalty revenue collected during 2006, \$900 was distributed to the inventor in accordance with the agreement. Of the royalty revenue collected during 2005, \$1,200 was distributed to the inventor in accordance with the agreement.

Edge One, LLC dba EdgeTech

2002 Agreement:

In 2002, the Corporation entered into an exclusive license agreement with Edge One, LLC dba Edge Tech, whereby the licensee (Edge Tech) had the right to develop, make, use and sell products or components using the specified patented technology owned by the Corporation. The agreement provides for sales-based royalties of 1 ½ % of net sales of licensed products or 3% of the licensed component net list price sales or both. In addition, the agreement provides for minimum royalties of \$1,000 every 6 months with the first payment due upon execution of the agreement. Each minimum royalty payment shall be credited towards royalties earned during that royalty period.

By way of separate agreement, the Corporation shares this royalty income with the University and the inventor; the inventor receives the first \$5,000 in royalty income. Of the remaining royalty income, the University receives 20%, the inventor 50% and the Corporation retains 30% of net cumulative royalty income up to \$100,000. Royalty income over \$100,000 is to be shared as follows: the University receives 26%, the inventor 35% and the Corporation retains 39% of net cumulative royalty income.

In accordance with the licensing agreement the Corporation received \$12,047 and \$5,699 during the years ended June 30, 2006 and June 30, 2005, respectively. Of the royalty revenue collected during 2006, \$6,024 was distributed to the inventors in accordance with the agreement, and \$2,409 was distributed to the University. Of the royalty revenue collected during 2005, \$2,850 was distributed to the inventors in accordance with the agreement, and \$1,140 was distributed to the University.

**FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS**

(7) Royalty Agreements (continued)

2005 Agreement:

In 2005, the Corporation entered into an exclusive license agreement with Edge One, LLC dba Edge Tech, whereby the licensee (Edge Tech) had the right to develop, make, use and sell products, components or special products using the specified patented technology owned by the Corporation. The agreement provides for sales-based royalties of 1 ½ % of net sales of licensed products, 5% of the licensed component net list price sales, and \$1,000 per special order (one-of-a-kind application or system using the patented technology). In addition, the agreement provides for minimum royalties of \$1,000 every 6 months with the first payment due upon execution of the agreement. Each minimum royalty payment shall be credited towards royalties earned during that royalty period.

By way of separate agreement, the Corporation shares this royalty income with the University and the inventors; the inventors receive the first \$5,000 in royalty income. Of the remaining royalty income, the University receives 20%, the inventors 50% and the Corporation retains 30% of net cumulative royalty income up to \$100,000. Royalty income over \$100,000 is to be shared as follows: the University receives 26%, the inventors 35% and the Corporation retains 39% of net cumulative royalty income.

In accordance with the licensing agreement the Corporation received \$2,000 during the year ended June 30, 2006. Of the royalty revenue collected during 2006, \$2,000 was distributed to the inventors in accordance with the agreement.

Steridian Corporation

In February 2004, the Corporation entered into an exclusive license agreement with Steridian Corporation whereby the licensee (Steridian) has the right to make, have made, use, and sell licensed products, licensed processes and licensed light valves incorporating the specified patented technology owned by the Corporation. The agreement provides that upon closing of Steridian's first round of equity financing, the Corporation will receive 1% of Steridian's stock. In addition, the agreement provides for sales – based royalties of 5% of net sales until the date of first mass commercial sale of licensed light valves.

By way of separate agreement, after reimbursing the University for its costs related to securing the patent, the Corporation shares this royalty income with the University and the inventor; the inventor receives the first \$5,000 in royalty income. Of the remaining royalty income, the University receives 40%, the inventor 50% and the Corporation retains 10% of net cumulative royalty income up to \$100,000. Royalty income over \$100,000 is to be shared as follows: the University receives 55%, the inventor 35% and the Corporation retains 10% of net cumulative royalty income.

FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS

(7) Royalty Agreements (continued)

In October, 2004, the Corporation and Steridian agreed to terminate the licensing agreement. The terms of settlement agreement provided that Steridian make a payment of \$60,000 to the Corporation, of which \$35,988 represented consideration for the full settlement of the outstanding amount owed by Steridian to the Corporation, \$18,000 represented consideration for the repurchase of all 360,000 shares of Steridian owned by the Corporation, and \$6,012 represented consideration for the termination of the License Agreement.

Of the \$60,000 received by the Corporation, \$25,759 was applied towards reimbursement of patent costs, \$18,590 was distributed to the inventor in accordance with the royalty agreement, and \$6,261 was distributed to the University.

Panavision International, L.P.

In February 2004, the Corporation entered into an exclusive license agreement with Panavision International, L.P. whereby the licensee (Panavision) has the right to all commercial uses of products incorporating the specified patented technology owned by the Corporation. The agreement provides for minimum royalties as follows: \$50,000 for each twelve month royalty period until the end of the royalty period during which a product using the technology is first sold or rented (leased) in commerce; for each royalty period thereafter, the minimum royalty will be \$100,000.

The minimum royalty is to be paid annually, in advance and shall be credited towards royalties earned during that royalty period. The minimum royalty for a particular royalty period shall not be reduced by royalties earned from sales or rental of products during a prior or subsequent royalty period.

In the event that Panavision elects not to pay an amount equal to the annual minimum royalty for a given royalty period, the license shall become non-exclusive.

By way of separate agreement, after reimbursing the University for its costs related to securing the patent, the Corporation shares this royalty income with the University and the inventor; the inventor receives the first \$5,000 in royalty income. Of the remaining royalty income, the University receives 20%, the inventor 50% and the Corporation retains 30% of net cumulative royalty income up to \$100,000. Royalty income over \$100,000 is to be shared as follows: the University receives 55%, the inventor 35% and the Corporation retains 10% of net cumulative royalty income.

**FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS**

(7) Royalty Agreements (continued)

In accordance with the licensing agreement the Corporation received \$50,000 during each of the years ended June 30, 2006 and 2005. Of the royalty revenue collected during 2006, \$25,000 was distributed to the inventor in accordance with the agreement, and \$10,000 was distributed to the University. Of the royalty revenue collected during 2005, \$19,324 was applied towards reimbursement of patent costs, \$17,838 was distributed to the inventor in accordance with the agreement, and \$5,136 was distributed to the University. \$50,000 of royalty revenue collected during 2004 was applied towards reimbursement of patent costs and is included in royalties payable on the accompanying statements of net assets.

CHS Resources, LLC

In October 2005, the Corporation entered into an exclusive license agreement with CHS Resources, LLC whereby the licensee (CHS) has the right to all commercial uses of products and processes incorporating the specified patented technology owned by the Corporation. CHS is a start-up company created to develop and commercialize therapeutic technologies. The agreement provides for sales-based royalties of 3% of net sales of licensed product or processes. In addition, the agreement provides for minimum royalties as follows: \$25,000 for each twelve month royalty period starting on October 11, 2006 for the first 4 years of the agreement. For each royalty period thereafter, the minimum royalty will be \$50,000. Once earned royalties begin, the minimum royalties will be applied to earned royalties on a calendar year basis for the same calendar year in which the royalties were earned. In addition, the agreement provides for the following milestone payments:

Evaluation Milestone – CHS agrees to conduct proof of concept human trials on the licensed patents (the evaluation milestone). CHS agrees to pay the Corporation \$50,000 upon completion of the evaluation milestone, which shall be completed within 6 months of the effective date of the agreement. Upon written notice to the Corporation, CHS may extend the evaluation milestone period for an additional 6 months.

New Drug Allowance Milestone – CHS agrees to pay the Corporation \$500,000 upon receiving notice of a new drug allowance or similar notice from the U.S. Food and Drug Administration or an equivalent regulatory authority anywhere in the world for a licensed product or process.

Further, upon CHS's payment of the evaluation milestone, CHS will issue to the Corporation that number of shares of CHS common stock such that the Corporation will at that time own 2 ½ % membership interest in CHS and the Corporation will become party to CHS's operating agreement.

**FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS**

(7) Royalty Agreements (continued)

By way of separate agreement, after reimbursing the University for its costs related to securing the patent, the Corporation shares this royalty income with the University and the inventor; the inventor receives the first \$5,000 in royalty income. Of the remaining royalty income, the University receives 40%, the inventor 50% and the Corporation retains 10% of net cumulative royalty income up to \$100,000. Royalty income over \$100,000 is to be shared as follows: the University receives 55%, the inventor 35% and the Corporation retains 10% of net cumulative royalty income.

Aker Kvaerner ASA

In June 2006, the Corporation entered into a nonexclusive limited use license agreement with Aker Kvaerner ASA (Aker) whereby Aker has the right for one employee to use the specified patented technology owned by the Corporation for internal and commercialization purposes of Aker. The technology is not to be used by others, reproduced, resold, assigned, or disclosed to others by Aker. Aker was required to make a payment of \$5,000 at signing.

By way of separate agreement, after reimbursing the University for its costs related to securing the patent, the Corporation shares this royalty income with the University and the inventor; the inventor receives the first \$5,000 in royalty income. Of the remaining royalty income, the University receives 40%, the inventor 50% and the Corporation retains 10% of net cumulative royalty income up to \$100,000. Royalty income over \$100,000 is to be shared as follows: the University receives 55%, the inventor 35% and the Corporation retains 10% of net cumulative royalty income.

Circular Logic, LLC

In June 2006, the Corporation entered into an exclusive license agreement with Circular Logic, LLC whereby the licensee (Circular) has the right to all commercial uses of products and processes incorporating the specified patented technology jointly owned by the Corporation and Circular. The agreement provides for sales-based royalties of 25% of net sales of licensed product or processes until the Corporation can provide proof that ½ of all patent costs for Circular's half of the licensed patent prior to the effective date of the agreement are paid in full or until Circular pays for its ½ of all patent costs in full, after which the royalty shall be 5% of net sales. In addition, the agreement provides for minimum royalties of \$2,000 on December 31, 2006 and every year thereafter on the same date. Any minimum royalty paid in a calendar year will be credited against the earned royalties for that calendar year. In addition, the agreement provides an option for Circular to buy-out the Corporation's undivided half of the licensed patents upon payment of \$75,000 to the Corporation plus any outstanding patent costs at any time before the 2 year anniversary of the agreement or upon payment of \$250,000 to the Corporation plus any outstanding patent costs at any time between the 2 year anniversary and on or before the 5 year anniversary of the agreement.

**FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS**

(7) Royalty Agreements (continued)

Upon exercising its option to buy-out the Corporation, Circular will issue to the Corporation that number of shares of Circular's common stock such that the corporation will at that time own a 3% non-voting membership interest in Circular and the Corporation will become party to Circular's operating agreement.

(8) Related Party Transactions

Because the Corporation is a direct support organization for the University, the transactions between the Corporation and University are varied and significant. The Corporation's board is comprised primarily of University representatives. The Corporation receives royalty revenue, a portion of which is payable to the University. The University is also the sub-recipient of the NASA grant. In addition, the University performs the research on behalf of the Corporation, pursuant to separate agreements between the University and the Corporation, as required in numerous work contracts with private industry. The Corporation also reimburses the University for legal and other costs the University incurs in patenting technologies.

During the year ended June, 30, 2003, the Corporation entered into an agency relationship with the University School of Nursing, whereby the Corporation has no responsibility other than to process certain receipts and expenditures for one of the University's School of Nursing research programs. Subsequent to June 30, 2005, the agency relationship was terminated.

(9) Restricted Net Assets

At June 30, 2006 and 2005, restricted net assets consisted of cash and receivables of \$447,393 and \$814,012, respectively, less payables and deferred revenue of \$312,575 and \$696,713, respectively, restricted for research and development.



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REPORT 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 Directors
Florida Atlantic University Research Corporation
Boca Raton, Florida

We have audited the financial statements of the governmental activities and the general fund of Florida Atlantic University Research Corporation as of and for the year ended June 30, 2006, which collectively comprise the Florida Atlantic University Research Corporation's basic financial statements and have issued our report thereon dated January 25, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Florida Atlantic University Research Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Florida Atlantic University Research Corporation'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.

We noted certain other matters that we reported to management of Florida Atlantic University Research Corporation in a separate letter dated January 25, 2007.

This report is intended for the information of the board of directors, management, federal and state awarding agencies, and the Auditor General of the State of Florida. However, this report is a matter of public record, and its distribution is not limited.

Mayer Hoffman McCann P.C.

Boca Raton, Florida
January 25, 2007

FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 June 30, 2006

<u>Federal Agency</u> <u>Federal Program or Cluster Title</u>	<u>CFDA</u> <u>Number</u>	<u>Contract</u> <u>Grant</u> <u>Number</u>	<u>Expenditures</u>	<u>Match</u>	<u>Total</u> <u>Expenditures</u>
NASA: Marshall Space Flight Center Cooperative Agreement		NCC8-272	<u>\$ 1,908,080</u>	<u>\$ 383,944</u>	<u>\$ 2,292,024</u>

See notes to schedule of expenditures of federal awards.

FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2006

(1) Basis of Presentation

The purpose of the accompanying schedule of expenditures of federal awards is to present, in summary form, total federal award expenditures of Florida Atlantic University Research Corporation (the Corporation) for the year ended June 30, 2006. The schedule is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(2) Program Clusters

OMB Circular A-133 defines a cluster of programs as a grouping of closely related programs that share common compliance requirements. According to this definition, we have determined the Research and Development programs of the Corporation to be a cluster of programs.

(3) Contingency

The grant revenue amounts received are subject to audit and adjustment. If any expenditures are disallowed by the grantor agencies as a result of such an audit, any claim for reimbursement to the grantor agencies would become a liability of the Corporation. In the opinion of the administration, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal laws and regulations.



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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Florida Atlantic University
Research Corporation

Compliance

We have audited the compliance of Florida Atlantic University Research Corporation with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Florida Atlantic University Research Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Florida Atlantic University Research Corporation's management. Our responsibility is to express an opinion on Florida Atlantic University Research Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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 federal program occurred. An audit includes examining, on a test basis, evidence about Florida Atlantic University Research Corporation'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. Our audit does not provide a legal determination of Florida Atlantic University Research Corporation's compliance with those requirements.

In our opinion, Florida Atlantic University Research Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed one

instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item F-1.

Internal Control over Compliance

The management of Florida Atlantic University Research Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Florida Atlantic University Research Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the board of directors, management, federal and state awarding agencies, and the Auditor General of the State of Florida. However, this report is a matter of public record, and its distribution is not limited.

A handwritten signature in cursive script that reads "Mayer Hoffman McCann P.C.".

Boca Raton, Florida
January 25, 2007

**FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? _____ yes X no
- Reportable conditions identified that are not considered to be material weaknesses? _____ yes X no

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Type of auditors' report issued: Unqualified

Internal control over major programs:

- Material weakness identified? _____ yes X no
- Reportable conditions identified that are not considered to be material weaknesses? _____ yes X no

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ yes X no

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

N/A

Research and Development (Cluster)

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

 X yes no

FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2006

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

F-1 – Cash Management: Approval of Transfers to Subrecipient

Condition: Not all transfers to the subrecipient made during the year were approved by an official of the Corporation. The Corporation reimburses the subrecipient on a periodic basis for expenditures made by the subrecipient. The funds are transferred based on a transfer request form prepared by the subrecipient. Two signatures are required for the transfer to be valid - one from the subrecipient and one from the Corporation. Of the twenty-one transfers made during the year, one was made without a transfer request form.

Criterion: OMB guidelines require that there be an appropriate level of supervisory review of cash management activities.

Effects: The Corporation did not exercise an appropriate level of supervisory review, since no official of the Corporation authorized the transfer. Lack of review by officials of the Corporation is, in effect, ceding control of Corporation assets to the subrecipient.

Cause: Since the Corporation has no employees, all functions are carried out by employees of the subrecipient. Normally, when funds are requested from NASA, a transfer request form is prepared by the subrecipient for the amount due from the Corporation. In this case, an adjustment in the amount of \$13,759 was made on June 30, 2005, to reclassify an expenditure from one NASA-related cost center to another. When the request for transfer of funds was prepared in July 2005, it omitted the expenditure which had been transferred. In October 2005, the clerk preparing the transfers corrected the error from July without preparing a request for transfer.

Questioned costs: This noncompliance did not result in any questioned costs, since amounts transferred were appropriate.

Recommendation: We recommend that someone be assigned responsibility to ensure that no transfers are made to the subrecipient without a request for transfer of funds with appropriate corporate approval.

Management's Response:

Counsel to the Corporation will oversee this function to ensure that this non compliant action does not occur again. Also, subrecipient's employees have been made aware of the necessary procedure and will ensure compliance as well.

FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2006

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINANCIAL STATEMENT FINDINGS

No matters were reported.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.