

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

FINANCIAL STATEMENTS

June 30, 2007 and 2006

Table of Contents

<u>Independent Auditors' Report on the Financial Statements</u>	1
<u>Financial Statements</u>	
Management's Discussion and Analysis	3
Statements of Net Assets	6
Statements of Revenues, Expenses and Changes in Net Assets	7
Statements of Cash Flows	8
Notes to Financial Statements	9
<u>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</u>	20



Mayer Hoffman McCann P.C.

An Independent CPA Firm

399 Northwest Boca Raton Boulevard
Boca Raton, Florida 33432
(561) 392-7929 ph
(561) 391-3018 fx
www.mhm-pc.com

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

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, 2007 and 2006 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated April 17, 2008, 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.

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.

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

April 17, 2008
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, 2007. 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 2006-07 and 2005-06 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, 2007. 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 \$219,644 as of the fiscal year ended June 30, 2007, which was an increase of \$151,530 in net assets.

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 October 31, 2007, and will not be renewed beyond this date. Discontinuation of the NASA agreement, which represents about 9 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, 2007 and 2006

	2007	2006
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 311,299	\$ 305,699
Accounts receivable	48,445	59,400
Due from NASA	13,874	21,370
Due from FAU	60,924	60,924
Interest receivable	808	1,361
Total Current Assets	435,350	448,754
Noncurrent Assets:		
Equipment, net	9,194	11,129
Patent costs, net	1,255	1,590
Total Noncurrent Assets	10,449	12,719
TOTAL ASSETS	\$ 445,799	\$ 461,473
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 3,514	\$ 100,427
Royalties payable	-	57,060
Prepaid program fees	134,364	140,655
Due to FAU	5,385	-
Due to FAU - NASA	8,059	20,384
Due to FAU - School of Nursing	74,833	74,833
Total Current Liabilities	226,155	393,359
TOTAL LIABILITIES	226,155	393,359
NET ASSETS		
Invested in capital assets	10,449	12,719
Restricted	-	134,818
Unrestricted	209,195	(79,423)
Total Net Assets	219,644	68,114
TOTAL LIABILITIES AND NET ASSETS	\$ 445,799	\$ 461,473

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, 2007 and 2006

	2007	2006
REVENUES		
Operating Revenues:		
Federal grants and contracts	\$ 105,499	\$ 1,908,079
Nongovernmental grants and contracts	166,890	388,927
Program revenue	678,760	574,239
Royalties	91,928	65,847
Other revenue	138,400	-
Total Operating Revenue	1,181,477	2,937,092
EXPENSES		
Operating Expenses:		
Contractual and program expenses	969,957	2,790,502
Royalty expenses	68,189	46,333
Depreciation expense	1,935	1,935
Amortization expense	335	335
Other operating expenses	8,662	180,976
Total Operating Expenses	1,049,078	3,020,081
Operating Income (Loss)	132,399	(82,989)
NONOPERATING REVENUES		
Interest income	19,131	13,928
INCREASE (DECREASE) IN NET ASSETS	151,530	(69,061)
Net assets beginning of year	68,114	137,175
NET ASSETS, END OF YEAR	\$ 219,644	\$ 68,114

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, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants and contracts	\$ 284,549	\$ 2,484,920
Program revenue	678,760	574,239
Royalties	91,928	65,847
Payments to suppliers for goods and services	(1,062,381)	(2,940,756)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(7,144)	184,250
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	19,684	14,584
NET CASH FLOWS FROM INVESTING ACTIVITIES	19,684	14,584
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (repayment) to/from FAU	(6,940)	(243,545)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(6,940)	(243,545)
NET INCREASE (DECREASE) IN CASH	5,600	(44,711)
CASH, BEGINNING OF YEAR	305,699	350,410
CASH, END OF YEAR	\$ 311,299	\$ 305,699
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH FROM OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 132,399	\$ (82,989)
Adjustments to reconcile net operating income (loss) to net cash flows from operating activities:		
Depreciation and amortization	2,270	2,270
Debt forgiveness	(138,400)	-
Change in assets and liabilities:		
Accounts receivable	10,955	14,100
Due from NASA	7,496	310,678
Accounts payable	(15,573)	77,055
Prepaid program fees	(6,291)	(136,864)
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ (7,144)	\$ 184,250

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:

	2007	2006
Equity in the State of Florida's Local Government	\$ 311,299	\$ 305,699
Surplus Trust Funds Investment Pool	\$ 311,299	\$ 305,699

**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, 2007 and 2006.

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>2007</u>	<u>2006</u>	Estimated Useful Life in Years
Signs	\$ 5,302	\$ 5,302	30
Equipment	8,792	8,792	5
	14,094	14,094	
Less accumulated depreciation	<u>(4,900)</u>	<u>(2,965)</u>	
	<u>\$ 9,194</u>	<u>\$ 11,129</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, 2007 and 2006 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).

Use of 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:

	2007	2006
Patents	\$ 6,697	\$ 6,697
Less: accumulated amortization	(5,442)	(5,107)
Total patent costs	\$ 1,255	\$ 1,590

The patents have an original term of 20 years, of which 3.75 years remain at June 30, 2007.

(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 from November 1, 2001 through October 31, 2007 total \$6,028,381.

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, 2007, the Corporation had received funds totaling \$6,004,328 and expended funds totaling \$6,004,328 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, 2007, \$13,874 was due to the Corporation 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, 2007, 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, 2007, the Corporation had received funds totaling \$160,709 and expended funds totaling \$160,709 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. During the year ended June 30, 2007 Corporation received an additional \$10,000.

As of June 30, 2007, 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 consisted of reimbursements under contracts with various entities totaling \$166,890 and \$388,927 for the years ended June 30, 2007 and 2006, respectively.

(6) Program Revenue

Program revenue is collected from clients of the School of Nursing's Memory and Wellness Center. For the years ended June 30, 2007 and 2006, it consisted of \$401,629 and \$348,722, respectively, in daycare fees and \$277,131 and \$231,606, respectively, in payments from clients or their insurers for clinic visits.

(7) Royalty Agreements

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 \$19,928 and \$12,047 during the years ended June 30, 2007 and June 30, 2006, respectively. Of the royalty revenue collected during 2007, \$9,964 was distributed to the inventors in accordance with the agreement, and \$3,986 was distributed to the University. 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.

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 each of the years ended June 30, 2007 and 2006. Of the royalty revenue collected during 2007 and 2006, \$2,000 was distributed each year to the inventors in accordance with the agreement.

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.

FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS

(7) Royalty Agreements (continued)

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.

In accordance with the licensing agreement the Corporation received \$50,000 during each of the years ended June 30, 2007 and 2006. Of the royalty revenue collected during 2007, \$20,399 was distributed to the inventor in accordance with the agreement, and \$11,841 was distributed to the University. 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.

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.

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

(7) Royalty Agreements (continued)

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.

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.

As of June 30, 2007, no payments have been received.

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.

In accordance with the licensing agreement the Corporation received \$5,000 during the year ended June 30, 2007. Of the royalty revenue collected during 2007, \$383 was distributed to the inventor in accordance with the agreement and \$4,617 was applied towards reimbursement of patent costs.

FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS

(7) Royalty Agreements (continued)

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.

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.

As of June 30, 2007, no payments have been received.

Lockheed Martin Sippican, Inc.

In July 2006, the Corporation entered into an exclusive license agreement with Lockheed Martin Sippican, Inc. whereby the licensee (Lockheed) has the right to all commercial uses of products and processes incorporating the specified patent technology owned by the Corporation. The agreement provides for the license issue fees of \$15,000 to be paid to the Corporation by licensee upon signing of the agreement. In addition, the agreement provides for royalty payments of 3% of net sales of licensed product or 4% of licensed component net list sales price of licensed components sold separately or of the value of the sales price allocated to the licensed component as part of a product or system.

In accordance with the licensing agreement, the Corporation received \$15,000 during the year end June 30, 2007, and distributed \$15,000 to the University for its costs related to securing the patent.

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

(7) Royalty Agreements (continued)

Nautilus Biosciences

In July 2006, the Corporation entered into an exclusive license agreement with Nautilus Biosciences whereby the licensee (Nautilus) has the right to all commercial uses of products and processes incorporating the specified patent technology owned by the Corporation. The agreement provides that upon execution, Nautilus issues common stock to the Corporation such that the Corporation owns a 5% interest in Nautilus. In addition, the agreement provides for royalty payments of 3% of net sales of licensed product and 50% of any sublicensing fees Nautilus may receive. Nautilus further agrees that the first commercial sale of products to the retail customer shall occur on or before December 2009 or the Corporation may terminate the 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, 2006, the Corporation entered into an agreement with the University, whereby the Corporation receives payments from clients and their public and private insurers for various services provided by the School of Nursing's Memory and Wellness Center as part of its research program. The Corporation reimburses the University for its expenditures related to provision of these services.

During the year ended June 30, 2007, the University forgave the Corporation's debt related to royalties in the amount of \$57,060 and to the faculty incentive awards program in the amount of \$81,340. The total of \$138,400 has been reported as other revenue on the accompanying statement of revenues, expenses and changes in net assets.

(9) Restricted Net Assets

At June 30, 2007 and 2006, restricted net assets consisted of cash and receivables of \$211,463 and \$447,393, respectively, less payables and deferred revenue of \$211,463 and \$312,575, respectively, restricted for research and development.



Mayer Hoffman McCann P.C.

An Independent CPA Firm

399 Northwest Boca Raton Boulevard
Boca Raton, Florida 33432
(561) 392-7929 ph
(561) 391-3018 fx
www.mhm-pc.com

**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, 2007, which collectively comprise the Florida Atlantic University Research Corporation's basic financial statements and have issued our report thereon dated April 17, 2008. 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, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the Corporation's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly would not

necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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.

This report is intended for the information of the board of directors, management, 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
April 17, 2008