FLORIDA INTERNATIONAL UNIVERSITY
RESEARCH FOUNDATION, INC.
(A Direct Support Organization)

FINANCIAL STATEMENTS

JUNE 30, 2007
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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Members of the Board of Directors and the Assistant Vice President of Direct Support Organizations
Florida International University Research Foundation, Inc.
Miami, Florida

We have audited the accompanying statement of net assets of Florida International University Research Foundation, Inc. (the Research Foundation), a direct support organization and component unit of Florida International University, as of June 30, 2007 and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Research Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Research Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 the Research Foundation as of June 30, 2007, in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, we have also issued a report dated November 6, 2007 on our consideration of the Research Foundation's internal control over financial reporting and 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 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.
Members of the Board of Directors and the Assistant Vice President of Direct Support Organizations
Florida International University Research Foundation, Inc.
Page Two

The Foundation has not presented management's discussion and analysis that accounting principles
generally accepted in the United States has determined is necessary to supplement, although not required
to be part of the financial statements.

Rachlin Cohen & Holtz LLP

Miami, Florida
November 6, 2007
ASSETS

Current Assets:
   Cash                          $ 786,412
   Grant receivable              301,071
   Derivative asset              74,281
   Noncurrent Assets:
       Due from FIU               5,955,000
       Total assets               7,116,764

LIABILITIES

Current Liabilities:
   Accounts Payable              174,841
   Accrued interest payable      51,206
   Current portion of notes payable 1,910,000
   Due to FIU                   337,538
   Total current liabilities     2,473,585

Noncurrent Liabilities:
   Notes payable                4,515,000
   Total liabilities            6,988,585

NET ASSETS

Unrestricted Net Assets       $ 128,179

See notes to financial statements.
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues:</td>
<td></td>
</tr>
<tr>
<td>Federal grants and contracts</td>
<td>$301,071</td>
</tr>
<tr>
<td>Operating Expenses:</td>
<td></td>
</tr>
<tr>
<td>Operating expenses</td>
<td>315,766</td>
</tr>
<tr>
<td>Operating Loss</td>
<td>(14,695)</td>
</tr>
<tr>
<td>Non-Operating Revenues (Expenses):</td>
<td></td>
</tr>
<tr>
<td>Non-operating revenues</td>
<td>255,000</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(227,751)</td>
</tr>
<tr>
<td>Unrealized gain on derivative instrument</td>
<td>74,281</td>
</tr>
<tr>
<td>Total non-operating revenues</td>
<td>101,530</td>
</tr>
<tr>
<td>Change in Net Assets</td>
<td>86,835</td>
</tr>
<tr>
<td>Net Assets, Beginning</td>
<td>41,344</td>
</tr>
<tr>
<td>Net Assets, Ending</td>
<td>$128,179</td>
</tr>
</tbody>
</table>

See notes to financial statements.
Cash Flows from Operating Activities:
  Cash received from FIU $ 337,538
  Cash paid for program activities (140,925)
    Net cash provided by operating activities 196,613

Cash Flows from Non-Capital Financing Activities:
  Receipts from FIU 2,120,000
  Interest paid (243,613)
  Repayment of note payable (1,822,811)
    Net cash provided by non-capital financing activities 53,576

Increase in Cash 250,189

Cash, Beginning 536,223

Cash, Ending $ 786,412

Non-Cash Investing and Financing Activities:
  Unrealized gain on derivative instrument $ 74,281

Reconciliation of Operating Loss to Net Cash
Provided by Operating Activities:
  Operating loss $ (14,695)
  Changes in assets and liabilities:
    (Increase) decrease in:
      Due to FIU 337,538
      Grant receivable (301,071)
    Increase in:
      Accounts payable 174,841
    Net cash provided by operating activities $ 196,613

See notes to financial statements.
NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Florida International University Research Foundation, Inc. (the Research Foundation or the Organization), a Florida not-for-profit corporation, is a direct support organization and a component unit of Florida International University and was organized in the State of Florida on November 25, 1997 for educational and scientific purposes. The articles of incorporation were amended and restated on June 28, 2005.

The Research Foundation is a tax-exempt organization as defined by Section 501(c)(3) of the Internal Revenue Code. The Research Foundation provides direct support to Florida International University (FIU or the University) in matters pertaining to research, and has been designated by the FIU Board of Trustees as a University Direct Support Organization pursuant to §1004.28, Florida Statutes.

Basis of Presentation

The financial statements of the Research Foundation have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Research Foundation reports under the GASB standards because it meets the criteria regarding the popular election of officers or appointment of a controlling majority of the members of the Organization’s governing body by one or more state or local governments and because it is a direct support organization. Therefore, the Research Foundation is reported as a governmental entity.

In accordance with GASB Statement No. 34, the Research Foundation met the criteria to use enterprise fund accounting and financial reporting. Accordingly, the financial statements are reported using the economic resources measurement focus and accrual basis of accounting, which recognizes revenue when earned and expenses when a liability is incurred, regardless of timing of the related cash flow.

In accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, the Foundation applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.
NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management’s knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

Derivative Financial Instrument

The Research Foundation entered into an interest rate swap agreement to reduce its exposure to market risks from changing interest rates. For interest rate swaps, the differential to be paid or received is accrued and recognized as interest expense and may change as market interest rates change. The fair value of the swap agreement is presented in the statement of financial position. The change in the fair value is presented as an unrealized gain or loss in the statement of activities.

Long-Term Debt

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Issuance costs are not material and are not presented in the financial statements.

Flow Assumption for Restricted Assets

If both restricted and unrestricted assets are available for use for a certain purpose, it is the Research Foundation’s policy to use restricted assets first, then use unrestricted assets as needed.

NOTE 2. CONCENTRATION OF CREDIT RISK

Cash

The Research Foundation maintains deposit balances with financial institutions that, from time to time, may exceed federally insured limits. At June 30, 2007, the Research Foundation had $486,412 that was in excess of federally insured limits. In addition, the Research Foundation maintains a deposit balance in Colombia, South America, to manage its operations pertaining to the USAID grant activities in Colombia. The balance in this account of $200,000 as of June 30, 2007 is not FDIC insured and is subject to foreign exchange risk. The Research Foundation maintains its cash balances with high quality financial institutions, which the Research Foundation believes limits these risks.
NOTE 3. RELATED PARTY TRANSACTIONS

On February 10, 2005, FIU Board of Trustees approved a settlement agreement with various agencies of the United States government, including the Department of Justice related to the Hemispheric Center for Environmental Technology whereby all audit claims were settled and the University agreed to pay $11,500,000 to the Federal Government.

On May 3, 2005, the University entered into an agreement with the FIU Research Foundation, Inc. whereas the Research Foundation authorized the issuance of a promissory note in an aggregate principal amount not to exceed $10,000,000, plus interest, to finance the payment of amounts due under the Settlement Agreement dated February 10, 2005 and certain costs relating to the financing.

To assist the University, the Research Foundation issued on June 30, 2005 two series of notes, one for $7,955,000 (tax exempt) and one for $1,670,000 (taxable) for a total of $9,625,000, and forwarded $9,591,096 to the Federal Government (see Note 4).

The University is obligated to fund both the principal and interest and issuance costs on the obligations to the Research Foundation. The Research Foundation made principal payments on the notes in the amount of $1,822,811 during the year.

NOTE 4. LONG-TERM DEBT

The debt activity for the year ended June 30, 2007 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Beginning Balance</th>
<th>Additions</th>
<th>Payments</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Exempt Note</td>
<td>$7,955,000</td>
<td>$</td>
<td>$1,530,000</td>
<td>$6,425,000</td>
</tr>
<tr>
<td>Taxable Note</td>
<td>292,811</td>
<td>-</td>
<td>292,811</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td><strong>$8,247,811</strong></td>
<td><strong>$</strong></td>
<td><strong>$1,822,811</strong></td>
<td><strong>$6,425,000</strong></td>
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</tbody>
</table>

$7,955,000 Florida International University Research Foundation, Inc. Tax-Exempt Note, Series 2005, dated June 30, 2005; interest at 65% of three month LIBOR plus 39.23 basis points; interest and principal payable on a quarterly basis with principal ranging from $135,000 on July 1, 2006 to a final principal payment of $515,000 on July 1, 2010.

$1,670,000 Florida International University Research Foundation, Inc. Taxable Note, Series 2005; interest at three month LIBOR rate plus 15 basis points; interest and principal payable on a quarterly basis with principal ranging from $445,000 on October 1, 2005 to a final payment of $292,811 which was paid on October 1, 2006.
NOTE 4. LONG-TERM DEBT (Continued)

<table>
<thead>
<tr>
<th>Year ending June 30:</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$1,910,000</td>
<td>$183,024</td>
<td>$2,093,024</td>
</tr>
<tr>
<td>2009</td>
<td>1,970,000</td>
<td>120,869</td>
<td>2,090,869</td>
</tr>
<tr>
<td>2010</td>
<td>2,030,000</td>
<td>57,235</td>
<td>2,087,235</td>
</tr>
<tr>
<td>2011</td>
<td>515,000</td>
<td>4,100</td>
<td>519,100</td>
</tr>
<tr>
<td></td>
<td><strong>$6,425,000</strong></td>
<td><strong>$365,228</strong></td>
<td><strong>$6,790,228</strong></td>
</tr>
</tbody>
</table>

NOTE 5. DERIVATIVE FINANCIAL INSTRUMENTS

On May 5, 2005, the Research Foundation entered into an interest rate swap agreement with a commercial bank on a notional amount of $7,955,000. Under the swap agreement, the Research Foundation agrees to pay a fixed rate of 3.15% and receive a variable rate based on 65% of 3 month LIBOR rate plus 0.3923%. As of June 30, 2007, the Research Foundation reported a derivative asset of $74,281 in the statement of net assets and an unrealized gain of $74,281 in the statement of revenues, expenses and changes in net assets. The swap agreement has a maturity date of July 1, 2010.
COMPLIANCE SECTION
Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Members of the Board of Directors and the Assistant Vice President of Direct Support Organizations
Florida International University Research Foundation, Inc.
Miami, Florida

We have audited the financial statements of Florida International University Research Foundation, Inc. (the Research Foundation) as of and for the year ended June 30, 2007, and have issued our report thereon dated November 6, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Foundation’s internal control over financial reporting as a basis for designing 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 Research Foundation’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of 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 the 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 Research Foundation’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 Foundation’s financial statements that is more than inconsequential will not be prevented or detected by the organization’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 Research Foundation’s internal control.

Our consideration of 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 internal control that might be significant deficiencies or 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 the Research Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board of Directors, management, the State University System of Florida and the Florida Board of Governors and the Board of Trustees of Florida International University and is not intended to be and should not be used by anyone other than these specified parties.

Rachlin Cohen & Holtz LLP

Miami, Florida
November 6, 2007