

**UNIVERSITY OF SOUTH FLORIDA
RESEARCH FOUNDATION, INC.
(A Component Unit of the
University of South Florida)**

**FINANCIAL STATEMENTS AND
COMPLIANCE REPORT**

As of and for the Year Ended June 30, 2020

And Reports of Independent Auditor

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

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Report of Independent Auditor

To the Board of Directors
University of South Florida
Research Foundation, Inc.
Tampa, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate remaining fund information of the University of South Florida Research Foundation, Inc. (the "Research Foundation"), a component unit of the University of South Florida, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Research Foundation's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and aggregate remaining fund information of the Research Foundation, as of June 30, 2020, and the respective changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 16 to the financial statements, in March 2020 the World Health Organization declared COVID-19 a global pandemic. Given the uncertainty of the situation and the duration of any business disruption, the related financial impact cannot be reasonably estimated at this time. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Research Foundation's basic financial statements. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of functional expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of functional expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2020, on our consideration of the Research Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Research Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Research Foundation's internal control over financial reporting and compliance.

 LLP

Tampa, Florida
October 14, 2020

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEAR ENDED JUNE 30, 2020

Management's Discussion and Analysis

The management's discussion and analysis ("MD&A") provides an overview of the financial position and activities of the University of South Florida Research Foundation, Inc. (the "Research Foundation") for the fiscal year ended June 30, 2020, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of the Research Foundation's management.

Financial Highlights

The Research Foundation's total assets were \$96.6 million at June 30, 2020. This balance reflects an increase of \$324 thousand (0.3%) from total assets at June 30, 2019. Total liabilities decreased \$3.1 million (10.5%) to \$26.7 million at June 30, 2020 from \$29.8 million at June 30, 2019. The Research Foundation's net position increased by \$3.4 million (5.2%), reaching a year-end balance of \$69.9 million.

Operating revenues were \$12.9 million in fiscal year 2020 for a decrease of \$500 thousand (3.4%) from the prior fiscal year. Operating expenses in fiscal year 2020 were \$10.4 million for a decrease of \$700 thousand (6.3%) from fiscal year 2019. Operating income in fiscal year 2020 increased \$200 thousand (10.6%) to \$2.5 million from the prior fiscal year amount of \$2.3 million.

Net nonoperating revenue of nonoperating expense was \$900 thousand in fiscal year 2020, for a decrease of \$700 thousand (45.9%) from fiscal year 2019 net nonoperating revenue of \$1.6 million. For fiscal year 2020 the increase in net position was \$3.4 million, for a decrease of \$500 thousand (12.6%) from fiscal year 2019 increase in net position of \$3.9 million.

Overview of Financial Statements

Pursuant to GASB Statement No. 35, the Research Foundation's financial report includes three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows.

The statement of net position reflects the assets, deferred outflows of resources, and liabilities of the Research Foundation, using the accrual basis of accounting, and presents the financial position of the Research Foundation at a specified time. The difference between total assets and deferred outflows of resources less total liabilities is net position. The net position is an indicator of the Research Foundation's financial health.

The statement of revenues, expenses, and changes in net position present the Research Foundation's revenue and expense activity, categorized as operating and nonoperating. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

The statement of cash flows provides information in the form of cash inflows and outflows summarized by operating, capital and related financing activities, and investing activities. This statement will assist in evaluating the Research Foundation's ability to generate net cash flows and its ability to meet its financial obligations as they come due.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEAR ENDED JUNE 30, 2020

Condensed Statements of Net Position

The following summarizes the Research Foundation's assets, deferred outflows of resources, liabilities, and net position at June 30:

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets	\$ 44,452,893	\$ 44,327,060
Restricted cash	645,833	1,120,834
Capital assets, net	41,080,273	42,853,560
Other investments	805,545	703,670
Other noncurrent assets	9,579,329	7,234,492
Total Assets	<u>96,563,873</u>	<u>96,239,616</u>
DEFERRED OUTFLOWS OF RESOURCES		
Interest rate swap	-	15,608
LIABILITIES		
Current	9,019,203	11,117,106
Noncurrent	17,618,496	18,650,196
Total Liabilities	<u>26,637,699</u>	<u>29,767,302</u>
NET POSITION		
Net investment in capital assets	23,071,893	23,313,788
Restricted	2,513,917	-
Unrestricted	44,340,364	43,174,134
Total Net Position	<u>\$ 69,926,174</u>	<u>\$ 66,487,922</u>

While total current assets of \$44.5 million at June 30, 2020 are comparable to total current assets of \$44.3 million at June 30, 2019, significant changes in fiscal year 2020 include a decrease in cash of \$3.8 million, an increase in investments of \$3.0 million, and an increase in accounts receivable of \$800 thousand.

The net increase of \$3.0 million in investments (7.5%) in fiscal year 2020 included \$4.0 million investment from operating cash funds, investment gains of \$1.5 million, less a redemption of \$2.5 million to fund debt reserves for the new Research Park building project (reported as other non-current assets).

Capital assets decreased \$1.8 million (4.1%) to \$41.1 million at June 30, 2020 from \$42.9 million at June 30, 2019. The net decrease resulted from depreciation charges of \$2.8 million for fiscal year 2020 offset by capital asset additions of \$1.0 million.

Total liabilities decreased \$3.1 million (10.5%) to \$26.7 million at June 30, 2020 from \$29.8 million at June 30, 2019. The decrease in liabilities in fiscal year 2020 occurred from scheduled principal payments on notes payable of \$1.7 million, capital lease obligation payments of \$261 thousand, and a decrease of \$1.2 million in current liabilities for accounts payable and the Due to the University payable. The fair value of the interest rate swap agreement decreased as a result of debt maturity in fiscal year 2020.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEAR ENDED JUNE 30, 2020

Condensed Statements of Revenues, Expenses, and Changes in Net Position

The following summarizes the Research Foundation's activities for the fiscal years ended June 30:

	<u>2020</u>	<u>2019</u>
Operating revenues	\$ 12,924,054	\$ 13,378,765
Operating expenses	<u>10,360,875</u>	<u>11,061,305</u>
Operating income	2,563,179	2,317,460
Net nonoperating revenues	<u>875,073</u>	<u>1,616,473</u>
Increase in net position	3,438,252	3,933,933
Net position, beginning of year	<u>66,487,922</u>	<u>62,553,989</u>
Net position, end of year	<u>\$ 69,926,174</u>	<u>\$ 66,487,922</u>

Operating Revenues

Operating revenues by source for the fiscal years ended June 30, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Property rental revenues	\$ 9,361,958	\$ 8,873,120	\$ 488,838	5.5%
Royalties, licenses, and option fees	2,973,071	3,899,439	(926,368)	-23.8%
Contracts and grants	418,677	363,324	55,353	15.2%
Administrative fees	<u>170,348</u>	<u>242,882</u>	<u>(72,534)</u>	-29.9%
Total Operating Revenues	<u>\$ 12,924,054</u>	<u>\$ 13,378,765</u>	<u>\$ (454,711)</u>	-3.4%

Property rental revenues were \$9.4 million in fiscal year 2020 for an increase of \$489 thousand (5.5%) from the prior fiscal year. The increase in Research Park rent revenues was \$268 thousand (3.1%) with the remainder increase of \$221 thousand generated from rents received for non-Research Park leased office space.

Royalties, licenses and option fees decreased \$926 thousand (23.8%) in fiscal year 2020 from fiscal year 2019. Settlement fees received from Intellectual property patent protection were \$383 thousand less in fiscal year 2020, and other license and royalty fees decreased \$543 thousand.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEAR ENDED JUNE 30, 2020

Operating Expenses

The following summarizes the operating expenses for the fiscal years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Property rental expenses	\$ 7,164,108	\$ 6,780,301	\$ 383,807	5.7%
Inventor royalties	1,109,457	1,377,244	(267,787)	-19.4%
Inventing department and other royalties	592,223	769,297	(177,074)	-23.0%
Intellectual property costs	124,399	430,768	(306,369)	-71.1%
Seed capital expense	(30,500)	382,050	(412,550)	-108.0%
Contracts and grants	418,677	363,324	55,353	15.2%
University support	86,485	76,350	10,135	13.3%
Management and general	896,026	881,971	14,055	1.6%
Total Operating Expenses	<u>\$ 10,360,875</u>	<u>\$ 11,061,305</u>	<u>\$ (700,430)</u>	-6.3%

Property rental expenses include Research Park operating expenses as well as costs associated with the operating lease of other office space. In fiscal year 2020, the combined expense increased \$384 thousand (5.7%) to \$7.2 million. Research Park operating expenses increased \$207 thousand (3.3%) and property rental expenses associated with operating lease of office space increased \$177 thousand (30.3%) when compared to the prior year.

Total intellectual property costs of \$1.8 million to include royalties of \$1.1 million to inventors, \$545 thousand of royalties to University departments and colleges to support their research and education activities, other royalties of \$47 thousand, and other direct technology costs of \$124 thousand, collectively, decreased \$751 thousand (29.1%) in fiscal year 2020. Decrease in royalty expense was \$445 thousand (20.7%) which is associated with the decrease in intellectual property revenue subject to royalties. Other direct costs associated with intellectual property revenue decreased \$306 thousand (71.1%).

In fiscal year 2019, an additional expense to reserve for unlikely collection of the Seed Capital notes receivables was recorded to reduce the estimated net realizable value of the notes and interest receivable, given consideration of conversion features associated with the note and specific review of the start-up company's ability to pay. Based on repayment activity in fiscal year 2020, the debt reserve was reduced \$30 thousand.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEAR ENDED JUNE 30, 2020

Nonoperating Revenues and Expenses

Certain revenue sources including investment income are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the Research Foundation's nonoperating revenues and expenses for the 2020 and 2019 fiscal years:

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>% Change</u>
Nonoperating Revenues				
(Expenses):				
Investment income	\$ 1,917,072	\$ 2,212,120	\$ (295,048)	-13.3%
Interest income	17,781	25,934	(8,153)	-31.4%
Interest expense	<u>(1,059,780)</u>	<u>(621,581)</u>	<u>(438,199)</u>	70.5%
Total Net Nonoperating Revenues	<u>\$ 875,073</u>	<u>\$ 1,616,473</u>	<u>\$ (741,400)</u>	-45.9%

Nonoperating interest expense of \$1.1 million in fiscal year 2020 increased \$438 thousand (70.5%) from the prior fiscal year. Construction period interest costs of \$401 thousand was incurred in fiscal year 2020 for debt commitments associated with an executed master lease with another DSO of the University for construction of a mixed use laboratory and office building project to be located in the USF Research Park.

Condensed Statements of Cash Flows

The following summarizes cash flows for the 2020 and 2019 fiscal years:

	<u>2020</u>	<u>2019</u>
Cash flows from:		
Operating activities	\$ 3,535,406	\$ 6,992,154
Capital and related financing activities	(6,592,382)	(3,423,993)
Investing activities	<u>(1,168,563)</u>	<u>(3,250,603)</u>
Net (decrease) increase in cash and cash equivalents	(4,225,539)	317,558
Cash and cash equivalents, beginning of year	<u>4,871,372</u>	<u>4,553,814</u>
Cash and cash equivalents, end of year	<u>\$ 645,833</u>	<u>\$ 4,871,372</u>

Fiscal year 2020 generated positive cash flow from operations of \$3.5 million. During fiscal year 2020, \$4.0 million of operating cash was used for investing activities and was transferred to a money market account. Other cash flow investing activities included the subsequent redemption of \$2.5 million of investments as a source of funding required debt reserves.

In addition to \$2.5 million payment of debt reserves for construction of a mixed use laboratory and office building project to be located in the USF Research Park, capital and related financing activities used cash flows of \$4.1 million in FY20 to include acquisition of capital assets of \$1.0 million, \$2.0 million payment of debt service on notes payable and capital lease obligation, and \$1.1 million of interest expense.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEAR ENDED JUNE 30, 2020

Capital Assets

At June 30, 2020, the Research Foundation had \$73.4 million in capital assets, less accumulated depreciation of \$32.3 million, for net capital assets of \$41.1 million. Depreciation expense totaled \$2.8 million and \$2.5 million for the fiscal years ended June 30, 2020 and 2019, respectively.

The following table summarizes the Research Foundation's capital assets, net of accumulated depreciation, as of June 30:

	<u>2020</u>	<u>2019</u>
Land	\$ 8,739,633	\$ 8,739,633
Construction in process	395,464	604,123
Buildings, net	31,732,396	33,261,664
Equipment, net	212,780	248,140
Total capital assets, net	<u>\$ 41,080,273</u>	<u>\$ 42,853,560</u>

Debt Administration

At June 30, 2020, the Research Foundation had \$18.7 million in outstanding debt representing a decrease of \$2.0 million (9.8%) from the prior fiscal year balance of \$20.7 million. As further disclosed in the notes to the financial statements, debt commitments for construction of a mixed use laboratory and office building project to be located in the USF Research Park were entered into in fiscal year 2020.

Economic Factors That Will Affect the Future

The Research Park is finding success with its mission of creating an environment that fosters collaboration and innovation as evidenced by the number of academic research facilities on site alongside the many private sector facilities from nascent start-ups to the publicly traded. The private sector tenants continue to demonstrate positive job creation, collaboration with University faculty, licensing of university intellectual property, and real world internship opportunities for students.

Leases for existing structures and ground lease transactions within the Research Park are a significant source of revenue for the Research Foundation. Occupancy within the Research Park is at near capacity. While there is ongoing risk of lease terminations, there continues to be encouraging interest in available space. Further growth is dependent on marketing efforts and market conditions, as we work on opportunities for constructing new facilities.

COVID-19 is a global pandemic, which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant declines and volatility in the financial markets. The coronavirus outbreak and government responses are creating disruption to global supply chains and adversely impacting many industries. The outbreak could have a material, adverse impact on economic and market conditions and trigger a period of global economic shutdown. Although it is not possible to reliably estimate the length and severity of this outbreak, financial impacts could occur that are unknown at this time.

Request for Information

This financial report is designed to provide a general overview of the Research Foundation's finances for all those interested. Questions concerning any of the information provided in this report, or requests for additional information should be addressed in writing to the Chief Financial Officer, USF Research Foundation, Inc., 3802 Spectrum Blvd., Suite 100, Tampa, FL 33612.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
STATEMENT OF NET POSITION

JUNE 30, 2020

ASSETS

Current Assets:

Investments	\$ 42,649,310
Accounts receivable, net	1,457,642
Notes receivable, net	91,250
Other current assets	254,691
	<u>44,452,893</u>
Total Current Assets	<u>44,452,893</u>

Noncurrent Assets:

Restricted cash	645,833
Capital assets, net	41,080,273
Developer rights to Research Park, net	6,993,331
Other investments	805,545
Noncurrent receivables	15,831
Notes receivables, net	56,250
Reserve for debt service	2,513,917
	<u>52,110,980</u>
Total Noncurrent Assets	<u>52,110,980</u>
Total Assets	<u>96,563,873</u>

LIABILITIES

Current Liabilities:

Accounts payable and accrued liabilities	1,637,526
Due to University of South Florida	6,053,468
Current portion of notes payable	775,000
Current portion of capital lease obligation	260,716
Unearned revenues	292,493
	<u>9,019,203</u>
Total Current Liabilities	<u>9,019,203</u>

Noncurrent Liabilities:

Notes payable, less current portion	14,635,000
Capital lease obligation, less current portion	2,983,496
	<u>17,618,496</u>
Total Noncurrent Liabilities	<u>17,618,496</u>
Total Liabilities	<u>26,637,699</u>

NET POSITION

Net investment in capital assets	23,071,893
Restricted	2,513,917
Unrestricted	44,340,364
	<u>69,926,174</u>
Total Net Position	<u>\$ 69,926,174</u>

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2020

Operating Revenues:	
Property rental revenues	\$ 9,361,958
Royalties, licenses, and option fees	2,973,071
Contracts and grants	418,677
Administrative fees	170,348
Total Operating Revenues	<u>12,924,054</u>
Operating Expenses:	
Property rental expenses	7,164,108
Inventor royalties	1,109,457
Inventing department and other royalties	592,223
Intellectual property costs	124,399
Seed capital expense	(30,500)
Contracts and grants	418,677
University support	86,485
Management and general	896,026
Total Operating Expenses	<u>10,360,875</u>
Operating Income	<u>2,563,179</u>
Nonoperating Revenue (Expense):	
Investment income	1,917,072
Interest income	17,781
Interest expense	(1,059,780)
Total Net Nonoperating Revenue	<u>875,073</u>
Increase in net position	3,438,252
Total net position, beginning of year	<u>66,487,922</u>
Total net position, end of year	<u>\$ 69,926,174</u>

The accompanying notes to the financial statements are an integral part of this statement.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2020

Cash flows from operating activities:	
Property rental receipts	\$ 9,842,616
Royalties, licenses, and option fees	2,608,292
Contract and grant receipts	555,063
Administrative fee receipts	170,348
Total Receipts	<u>13,176,319</u>
Property rental disbursements	(5,099,301)
Intellectual property disbursements	(2,047,065)
Contract and grant disbursements	(374,150)
University support, management and general	(2,120,397)
Total Disbursements	<u>(9,640,913)</u>
Net cash flows from operating activities	<u>3,535,406</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(1,033,447)
Collection of note receivable	28,000
Principal payments on notes payable	(1,745,000)
Capital lease payments	(261,394)
Interest paid on notes and swap liabilities	(1,066,624)
Payment of debt reserve	(2,513,917)
Net cash flows from capital and related financing activities	<u>(6,592,382)</u>
Cash flows from investing activities:	
Purchase of investments	(4,095,602)
Sale of investments	2,559,521
Investment income	367,518
Net cash flows from investing activities	<u>(1,168,563)</u>
Net decrease in cash	(4,225,539)
Cash, beginning of year	<u>4,871,372</u>
Cash, end of year	<u><u>\$ 645,833</u></u>
Cash:	
Unrestricted	\$ -
Restricted	<u>645,833</u>
	<u><u>\$ 645,833</u></u>

(continued)

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
STATEMENT OF CASH FLOWS (CONTINUED)

YEAR ENDED JUNE 30, 2020

**Reconciliation of net operating revenues (expenses)
to net cash flows from operating activities:**

Operating income	\$ 2,563,179
Adjustments to reconcile net operating revenues (expenses) to net cash flows from operating activities:	
Depreciation and amortization expense	2,922,646
Accounts receivable provision for bad debts	2,424
Notes and interest receivable provision for net realizable value	(30,500)
Change in assets and liabilities:	
Accounts receivable and other receivables	(769,910)
Other current assets	(66,156)
Accounts payable and accrued liabilities	(615,957)
Due to University of South Florida	(573,507)
Unearned revenue	103,187
Net cash flows from operating activities	<u>\$ 3,535,406</u>

Supplemental disclosure of noncash capital and financing activities:

Reduction in derivative investment through a reduction in deferred outflow of resources for the interest rate swap	<u>\$ (15,608)</u>
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Supplemental disclosure of noncash investing activities:

Net unrealized gain on investments	<u>\$ 1,516,670</u>
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UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2020

	Custodial Funds
ASSETS	
Cash	\$ 2,810,463
Receivables	197,321
Due from Research Foundation	112,810
Total Assets	<u>3,120,594</u>
LIABILITIES	
Accounts payable	40,944
Total Liabilities	<u>40,944</u>
NET POSITION	
Restricted for USF Incubator Program	2,100,861
Restricted for USF Institute for Advanced Discovery & Innovation	401,767
Restricted for USF Economic Development	293,868
Restricted for Graphicstudio	220,525
Restricted for USF Veterans Reintegration	62,629
Total Net Position	<u>\$ 3,079,650</u>

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2020

	Custodial Funds
Additions:	
Incubator program revenue	\$ 819,500
Graphicstudio revenue	760,066
Incubator program sponsor support	509,000
Institute for Advanced Discovery & Innovation sponsor support	300,000
Total Additions	<u>2,388,566</u>
Deductions:	
Program expenditures	841,160
Graphicstudio expenditures	713,511
Administrative fees	129,805
Total Deductions	<u>1,684,476</u>
Net increase in fiduciary net position	704,090
Net position, beginning of year	<u>2,375,560</u>
Net position, end of year	<u><u>\$ 3,079,650</u></u>

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 1—Organization

Nature of Entity – The University of South Florida Research Foundation, Inc. (the “Research Foundation”) was established to promote, encourage, and enhance the research activities of University of South Florida faculty, staff, and students. The Research Foundation provides a mechanism for the funding of licensed research and development activities at the University of South Florida (the “University”). The Research Foundation is a Direct Support Organization (“DSO”) of the University as provided for under Section 1004.28, Florida Statutes.

The Research Foundation owns and manages real property assets that include the USF Research Park and various buildings located on the property. Activities within the USF Research Park generate revenue primarily through long-term leases of facilities utilized by the University research enterprise and private sector entities seeking research relationships with the University.

The Research Foundation provides a broad and flexible financial mechanism to administer private research contracts and grants, including corporate and private foundation-sponsored programs. The Research Foundation assists the University in the commercialization of University inventions including license agreements and receipt and distribution of royalties related to intellectual property. The Research Foundation works in cooperation with the University’s Technology Transfer Office (“TTO”) in obtaining the rights to patents and copyrights for these properties, and licensing them to commercial enterprises. Revenues generated from the commercialization of intellectual property include license fees, options-to-license fees, and royalties. Net revenue from the commercialization of the intellectual property are shared on a percentage basis among the inventors, a research fund in the department where the inventor is employed, a research fund for the college, and the Research Foundation. Net proceeds from Research Foundation activities are used to further research and other endeavors at the University.

TTO reviews all intellectual property developed at the University to determine if the University wishes to retain its rights and interests. On intellectual work that shows the potential for University benefit, TTO obtains patents and copyrights and assumes all costs, to include attorneys’ fees and patent application fees. All rights are retained by the University. The rights, title and interest in and to the intellectual property are then licensed by the University to the Research Foundation. Patent costs recovered by the Research Foundation are repaid to the University.

Reporting Entity – Criteria for defining the reporting entity are identified and described in the Governmental Standards Accounting Board’s (“GASB”) *Codification of Governmental Accounting and Financial Reporting Standards*, Section 2100 and 2600. These criteria were used to evaluate potential component units for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the primary government’s financial statements to be misleading or incomplete. Based on the application of these criteria, the Research Foundation is a component unit of the University, and its financial balances and activity are reported in the University’s Comprehensive Annual Financial Report by discrete presentation.

Blended Component Units – Based on the application of the criteria for determining component units, CAUSF Research, LLC is included within the Research Foundation’s reporting entity as a blended component unit. CAUSF Research, LLC was established in 2004 as a financing vehicle for construction of a research building. The Research Foundation is the sole member of the LLC. In the current year, there was no activity in CAUSF Research, LLC to include in the reporting entity’s basic financial statements.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Summary of significant accounting policies

Basis of Presentation – The financial statements of the Research Foundation conform to accounting principles generally accepted in the United States of America as prescribed by GASB. The Research Foundation’s financial statements are presented in the form of an enterprise fund and a fiduciary custodial fund.

Custodial funds are used to account for assets held by or as an agent for the benefit of other organizations outside the reporting entity, to include the University. Custodial funds are custodial in nature and do not involve measurement of results of operations. The assets and liabilities for custodial funds are presented on the statement of fiduciary net position and additions and deductions on the statement of changes in fiduciary net position. Custodial funds include the USF Tampa Bay Technology Incubator, USF Economic Development, USF Institute for Advanced Discovery & Innovation, USF St. Petersburg Incubator Support, USF Veterans Reintegration Office, and Graphicstudio.

Net Position Classifications – Net position is classified and displayed in three components:

Net Investment In Capital Assets – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings and deferred outflows of resources that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position – Consists of net position with constraints placed on the use either by (1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation.

Unrestricted Net Position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Basis of Accounting – The financial statements of the Research Foundation have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. The Research Foundation’s custodial funds are presented in the fund financial statements. By definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the Research Foundation. Accordingly, these funds are not incorporated into the Research Foundation’s statements.

Cash – The Research Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents.

Investments – Investments in money market accounts, short-term bond index funds, equity securities, mutual funds, partnership accounts, and pooled accounts are recorded at fair value, as determined by quoted market prices. All investment income of the Research Foundation, including changes in the fair value of investments, is reported under nonoperating revenues in the statement of revenues, expenses, and changes in net position.

Accounts Receivable – Accounts receivable are recorded at net realizable value. The Research Foundation’s policy is to provide an allowance for accounts receivable that are not expected to be collected based on aging of the account and specific review of the customer.

Accounts receivable are charged off against the allowance for doubtful accounts when it is determined that the receivable will not be collected. The Research Foundation does not typically charge interest on past-due receivables and does not require collateral for accounts receivable.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Summary of significant accounting policies (continued)

Notes Receivable – Notes receivable consists of amounts funded to companies through the Seed Capital Accelerator Program (see Note 7) and are recorded at net realizable value. The Research Foundation's policy is to record an initial provision for 50% of the outstanding note balance, and increase the allowance when collection appears unlikely for the estimated net realizable value, given consideration of conversion features associated with the note and specific review of the start-up company.

Restricted Cash – Cash whose use is restricted for debt service is segregated on the statement of net position.

Capital Assets – Purchased capital assets are recorded at cost. Donated capital assets are recorded at acquisition value at the date of the donation. Buildings are depreciated on a straight-line basis using estimated useful lives generally ranging from 30 to 39.5 years. Consistent with University policy, depreciation of research buildings is based on componentization over the estimated useful life of its components which range from 15 to 40 years. Equipment is depreciated on a straight-line basis over estimated useful lives ranging from 5 to 20 years.

Costs of donated assets greater than \$5,000 are capitalized. The cost of maintenance and repair of capital assets is charged to expense as incurred, while costs of renewals and betterments are capitalized. When capital assets are replaced, retired, or otherwise disposed of, the costs of such capital assets and the related accumulated depreciation are deducted from the respective asset and accumulated depreciation accounts.

Deferred Outflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an expense until that time.

Income Taxes – The Research Foundation has been recognized by the Internal Revenue Service as a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code and Chapter 220.13 of the Florida Statutes.

Revenue Recognition – Revenues associated with the license of intellectual properties are recognized in accordance with timing stipulated in license agreements and when determinable and collectable. The Research Foundation must be able to, and be reasonably expected to, enforce payment of contract fees before revenues are recognized.

Rental income is recognized when billed in accordance with the underlying lease agreement. In agreements where rent holidays are provided to the lessee, the Research Foundation recognizes rent on a straight-line basis. The effects of scheduled future minimum rent increases are recognized at the time they become effective.

Administrative fees from contracts and grants are deemed to be earned when the Research Foundation has incurred expenditures in compliance with the specific agreement terms. Funds received for which expenditures have not yet been made are recorded on the statement of net position as due to the University of South Florida or as unearned revenue if the Research Foundation is named as the contracting party.

Estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events – The Research Foundation evaluated all events and transactions that occurred from July 1, 2020 through October 14, 2020, the date the financial statements were available for issuance.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 3—Investments and other investments

At June 30, 2020, the Research Foundation has the following investments and maturities:

	Fair Market Value	Less Than 1	Years		More Than 10
			1-5	6-10	
Money Market Accounts	\$ 4,257,531	\$ 4,257,531	\$ -	\$ -	\$ -
Short-Term Corporate					
Bond Index Funds	4,412,375	79,423	4,266,767	61,773	4,412
Bonds	1,430,789	54,231	391,482	324,704	660,372
Equity Securities	636,640	No Maturity	-	-	-
Mutual Funds	4,827,147	No Maturity	-	-	-
Partnership Accounts	449,999	No Maturity	-	-	-
Pooled Investments:					
Fixed Income	5,542,956	-	5,542,956	-	-
Equity Mutual Funds	17,616,720	17,616,720	-	-	-
Real Assets	2,551,955	No Maturity	-	-	-
Alternative Assets	1,728,743	No Maturity	-	-	-
	<u>\$ 43,454,855</u>	<u>\$ 22,007,905</u>	<u>\$ 10,201,205</u>	<u>\$ 386,477</u>	<u>\$ 664,784</u>

Pooled investments represent the Research Foundation's interest in the University of South Florida Foundation's Agency Investment Program (the "Program"). The Program consists of an agency investment fund (the "Fund") which includes USF Foundation funds as well as funds invested by the Research Foundation and other University DSOs. No specific investments are assigned to the Research Foundation, rather the value of the Research Foundation's investment is equal to the total Fund net asset value times the Research Foundation's units as a percentage of total units outstanding. The primary long-term investment strategy of the Program is to preserve the intergenerational equity of endowed gifts while providing a consistent source of funding for the University. The investment strategy is to earn a total rate of return that exceeds the spending rate, plus long-term inflation, plus the costs of managing the investment fund.

The Program pays a quarterly dividend based on the results of the Fund. Such dividends can either be withdrawn or reinvested. In addition, with 60-days' notice, the Research Foundation may withdraw either a portion of or its entire investment in the Program; however, the Research Foundation is limited to one withdrawal, other than any quarterly dividend, per calendar year. There were no unfunded commitments related to the Program as of June 30, 2020.

Other Investments – Other investments include equity holdings acquired from executed intellectual property agreements as well as other investments made in support of research efforts. Investments are recorded at fair value.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the Research Foundation's investment in a single issuer. The Research Foundation's investment policy provides that the maximum amount that may be invested in the securities of an individual issuer not backed by the full faith and credit of the U.S. government shall not exceed 5% of the market value of its investment portfolio. Direct investments in securities of the U.S. government, government agencies, and State of Florida Investment Pools or Pooled Funds comprised solely of U.S. government securities are not subject to these restrictions.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 3—Investments and other investments (continued)

Custodial Credit Risk – Custodial credit risk is the risk of loss attributed to the magnitude of the Research Foundation’s investments held by outside parties. At June 30, 2020, the book balances of cash funds were \$3,456,296 and the bank balances were \$3,871,633. The Research Foundation’s bank balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Research Foundation from time to time may have amounts in excess of insured limits. At June 30, 2020, the Research Foundation had bank balances of \$3,621,633 in excess of these insured limits.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Research Foundation has responded to this risk and has an investment in a short-term bond index fund. Overall, the Research Foundation limits the fixed income portfolio (United States Treasury securities, United States government agency obligations, mortgage-backed securities, corporate debt, and state and municipal securities investments) to a weighted average duration of less than five years. The Research Foundation’s investment policy provides for interest rate risk. The risk varies depending on the type of investment.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Research Foundation’s investment policy provides that all fixed income security investments at time of purchase, shall be rated in the top three rating classifications as defined by both Moody’s Investors Services and Standard & Poor’s or First Tier consistent with SEC rule 2a-7 if not rated and being no load funds. Eligible investments for long-term funds authorize pooled funds which are professionally managed and registered with the Securities and Exchange Commission and invested in various indexed and actively managed funds. The Research Foundation’s investment policy provides for credit rate risk. The risk varies depending on the type of investment.

At June 30, 2020, the Research Foundation has the following debt instrument quality ratings:

	Fair Market Value	AAA	AA	A	Less Than A Rated	Not Rated
Money Market Accounts	\$ 4,257,531	\$ -	\$ -	\$ -	\$ -	\$ 4,257,531
Short-Term Bond Index	4,412,375	44,124	405,938	1,981,156	1,981,157	-
Bonds	1,430,789	414,131	84,122	323,851	255,042	353,643
Mutual Funds	4,827,148	-	-	-	-	4,827,148
Fixed Income	5,542,956	216,310	122,539	395,355	2,370,134	2,438,618
	<u>\$ 20,470,799</u>	<u>\$ 674,565</u>	<u>\$ 612,599</u>	<u>\$ 2,700,362</u>	<u>\$ 4,606,333</u>	<u>\$ 11,876,940</u>

Investments, Investment Valuation, and Income Recognition – Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value determinations, other than those measured using the net asset value (“NAV”) as a practical expedient, are made based upon a hierarchy that prioritizes the inputs to valuation techniques. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 3—Investments and other investments (continued)

Level 1 – Inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the Research Foundation has the ability to access.

Level 2 – Inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability, and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

The asset's or liability's fair value measurement level within the fair value hierarchy, is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

Money Market Accounts – The fair value of these short-term investments is classified as Level 1 based on quoted prices in an active market.

Short-Term Corporate Bond Index Fund – Valued on quoted prices in an active market, classified Level 1.

Bonds – Includes Corporate Obligations and U.S. Government/Agency Bonds that are valued on quoted prices, classified as Level 2.

Equity Securities – Valued on quoted prices in an active market, classified as Level 1.

Mutual Funds – Includes Level 1 Fixed Income and Equity Mutual Funds valued on quoted prices in an active market.

Partnership Accounts – Valued using the cost approach, classified as Level 3.

Pooled Investments – This investment is valued using the NAV provided by the administrator of the fund, as a practical expedient. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is excluded from the valuation hierarchy.

The methodologies described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Research Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 3—Investments and other investments (continued)

The following table sets forth by level, within the fair value hierarchy, the Research Foundation's investments carried at fair value as of June 30, 2020.

	Total Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by Fair Value Level				
Money Market Accounts	\$ 4,257,531	\$ 4,257,531	\$ -	\$ -
Short-Term Corporate Bond Index Funds	4,412,375	4,412,375	-	-
Bonds	1,430,789	-	1,430,789	-
Equity Securities	636,640	636,640	-	-
Mutual Funds	4,827,147	4,827,147	-	-
Partnership Accounts	449,999	-	-	449,999
Total Investments by Fair Value Level	16,014,481	\$ 14,133,693	\$ 1,430,789	\$ 449,999
Investments Measured at NAV				
Pooled Investments	<u>27,440,374</u>			
Total Investments Measured at NAV	<u>27,440,374</u>			
Total Investments	<u><u>\$ 43,454,855</u></u>			

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 4—Accounts receivable

Non fiduciary accounts receivable consist of the following at June 30, 2020:

Royalty and license fees	\$ 1,470,739
Property leases	36,656
Other receivables	29,538
Allowance for doubtful accounts	(79,291)
	<u>\$ 1,457,642</u>

Note 5—Capital assets

Capital assets consist of the following at June 30, 2020:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 8,739,633	\$ -	\$ -	\$ 8,739,633
Construction in process	604,123	395,464	(604,123)	395,464
Total capital assets not being depreciated	<u>9,343,756</u>	<u>395,464</u>	<u>(604,123)</u>	<u>9,135,097</u>
Capital assets being depreciated:				
Buildings	59,720,764	1,189,669	-	60,910,433
Equipment	3,293,333	52,437	(2,526)	3,343,244
Total capital assets being depreciated	<u>63,014,097</u>	<u>1,242,106</u>	<u>(2,526)</u>	<u>64,253,677</u>
Less accumulated depreciation for:				
Buildings	(26,459,100)	(2,718,937)	-	(29,178,037)
Equipment	(3,045,193)	(87,797)	2,526	(3,130,464)
Total accumulated depreciation	<u>(29,504,293)</u>	<u>(2,806,734)</u>	<u>2,526</u>	<u>(32,308,501)</u>
Total capital assets being depreciated, net	<u>33,509,804</u>	<u>(1,564,628)</u>	<u>-</u>	<u>31,945,176</u>
Total capital assets, net	<u>\$ 42,853,560</u>	<u>\$ (1,169,164)</u>	<u>\$ (604,123)</u>	<u>\$ 41,080,273</u>

Note 6—Developer rights to Research Park

Other noncurrent assets include development rights for the 87.32 acre USF Research Park of Tampa Bay, formerly known as the University Technology Center, which the Research Foundation has accounted for as a prepaid lease of \$8,384,270 net of accumulated amortization of \$1,390,939. The intent of the Board of Trustees of the Internal Improvement Trust Fund, when granting these rights, was for a research and development park to be at the entrance to the University campus. While it is expected that the development rights will be renewed beyond the current 2081 expiration, the value of the rights are being amortized on a straight-line basis over 72 years. Annual amortization expense was \$115,912 for fiscal year 2020.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 7—Notes receivable Seed Capital Accelerator Program

The seed capital accelerator committee was approved by the Board of Directors of the Research Foundation (the “Board”) in fiscal year 2014, to assist the Board in fulfilling responsibilities regarding the venture investment fund which had been established by the Board in 1996.

The purpose of the venture investment fund had been to assist faculty in development and business activities in which the Research Foundation may participate in future revenues generated from the commercialization of the projects. The Seed Capital Accelerator Program was designed to support new and existing USF Tampa Bay Technology Incubator program affiliated start-up companies that have been formed, based on the licensing of University technologies.

The Seed Capital Accelerator Program provides up to \$50,000 of loan funding to enable start-ups to quickly improve the odds of overcoming immediate obstacles to commercialization that would provide a measurable outcome and return on investment in the near term. The companies execute convertible promissory notes in an aggregate principal amount of up to \$50,000. The maturity date of each note is five years from initial closing date and the interest rate on each note is fixed at an annual rate equal to the Wall Street Journal prime rate plus 3% as of the date of the first advance.

In fiscal year 2020, conversion rights were exercised on four promissory notes and interest receivable totaling \$231,250 into common stock (non-marketable shares) of the start-up companies.

Notes receivable are recorded at net realizable value of \$147,500 as of June 30, 2020, to include current portion of \$91,250 and noncurrent portion of \$56,250. Note maturities are as follows:

<u>Year</u>	Notes		
	<u>Receivable</u>	<u>Reserve</u>	<u>Net</u>
2021	\$ 392,000	\$ (300,750)	\$ 91,250
2022	150,000	(112,500)	37,500
2023	50,000	(37,500)	12,500
2024	25,000	(18,750)	6,250
	<u>\$ 617,000</u>	<u>\$ (469,500)</u>	<u>\$ 147,500</u>

<u>Year</u>	Interest		
	<u>Receivable</u>	<u>Reserve</u>	<u>Net</u>
2021	\$ 61,310	\$ (30,874)	\$ 30,436
2022	17,108	(5,960)	11,148
2023	4,526	(1,326)	3,200
2024	1,966	(483)	1,483
	<u>\$ 84,910</u>	<u>\$ (38,643)</u>	<u>\$ 46,267</u>

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 8—Accounts payable and accrued liabilities

Non fiduciary accounts payable and accrued liabilities consist of the following at June 30, 2020:

Vendors payable	\$ 184,563
Inventor royalties payable	834,179
Escrow payable	245,258
Interest payable	40,836
Other payables	332,690
	<u>\$ 1,637,526</u>

Note 9—Long-term debt

In 1999, the Research Foundation issued a Variable Rate Demand Revenue Bond (USF Research Park of Tampa Bay Project) Series 1999 (“1999 Bond”), to finance and refinance capital improvements at the University Technology Center Research and Development Park, now referred to as the USF Research Park of Tampa Bay. In addition thereto, the remaining acquisition of development rights to 35 acres of land was completed, existing University Technology Center Buildings I and II, now referred to as buildings 3702 Spectrum and 3650 Spectrum, and previously acquired development rights to lots 6 and 7 in the Research Park were refinanced. The 1999 Bond was issued pursuant to a Trust Indenture dated November 23, 1999, between the Research Foundation and the Trustee.

In 2013, the Research Foundation issued Series 2013-A Note to refund the outstanding 1999 Bond. The terms of the note included an annual principal payment and a variable interest rate of 67% of One-Month USD-London Interbank Offer Rate (“LIBOR”), to be payable monthly. The 2013-A Note matured in fiscal year 2020.

In 2004, the Research Foundation financed construction of the 3720 Spectrum and 3802 Spectrum buildings through the issuance of Variable Rate Demand Revenue Bonds Series 2004A, B, and C (“2004 bonds”). The closing of the 2004 bonds was completed in August 2004. There was no outstanding balance on the 2004B or 2004C bonds in fiscal year 2020.

In 2013, the Research Foundation issued Series 2013-B Note to refund the outstanding Series 2004A Bond. In fiscal year 2017, the note was amended to a 10-year fixed rate note. The amortization schedule through 2034 was maintained, with a maturity date of August 1, 2034. Interest at 3.18% fixed rate is payable monthly, with principal payable annually. The note is secured by lease assignments.

At June 30, 2020, the Research Foundation has an outstanding note from direct borrowings related to business-type activities of \$15,410,000. The outstanding note from direct borrowings contains an event of default that changes the timing of repayment of outstanding amounts to become immediately due if the Research Foundation is unable to make payment or fails to perform any covenant, condition or agreement under the master loan or credit agreements.

The credit agreement includes a liquidity to funded debt ratio covenant requirement whereby liquid assets of cash, restricted cash and equivalents plus investments to indebtedness for money borrowed, not be less than .40 to 1.00.

At June 30, 2020, \$645,833 is on deposit with the bank in a sinking fund account for payment of annual principal payment. This amount has been reported as restricted cash on the statement of net position.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 9—Long-term debt (continued)

Changes in long-term debt for the year ended June 30, 2020 are as follows:

	<u>June 30, 2019</u>	<u>Increases</u>	<u>Reductions</u>	<u>June 30, 2020</u>	<u>Amounts Due Within One Year</u>
Notes Payable:					
2013-A	\$ 1,000,000	\$ -	\$ (1,000,000)	\$ -	\$ -
2013-B	16,155,000	-	(745,000)	15,410,000	775,000
Total Notes Payable	<u>\$ 17,155,000</u>	<u>\$ -</u>	<u>\$ (1,745,000)</u>	<u>\$ 15,410,000</u>	<u>\$ 775,000</u>

The following is a schedule of maturities and interest expense:

<u>Year</u>	<u>Maturities</u>	<u>Interest</u>
2021	\$ 775,000	\$ 467,447
2022	805,000	441,927
2023	835,000	415,454
2024	870,000	387,881
2025	905,000	359,194
2026 - 2030	5,080,000	1,325,212
2031 - 2035	6,140,000	421,880
	<u>\$ 15,410,000</u>	<u>\$ 3,818,995</u>

Future obligations of interest expense are based on the fixed rate in effect as of June 30, 2020, and may not be representative of actual rates in those later periods.

Total interest expense for the 2013-A and 2013-B Notes was \$512,425 for fiscal year 2020.

Note 10—Derivative instruments

In 2001 and in 2006, the Research Foundation entered into interest rate swap agreements to limit the effects of changes in interest rates on its variable rate debt (see Note 9). In conjunction with the 2013 refunding of the 1999 and 2004 Bonds, and the reissuance of 2013 Series Notes with a new bank, an intercreditor agreement with the counterparty to the swap agreements was entered into. In fiscal year 2020, the remaining 2001 swap agreement (Series 2013-A) matured.

The terms of the swap agreement provided the Research Foundation pay a monthly fixed rate and receive monthly a variable rate equal to 67% of the one-month LIBOR. The effect of the agreement was to set the interest rate at a fixed rate through the term of the swap agreement.

Total interest expense for the swap agreement was \$13,344 for fiscal year 2020.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 11—Capital lease obligation

The Research Foundation entered into a capital lease agreement with another DSO of the University in fiscal year 2019, under which a building will become the property of the Research Foundation when all terms of the lease agreement are met. The capital asset was recorded in the amount of \$3,505,606.

Changes in capital lease obligation for the year ended June 30, 2020 are as follows:

	<u>June 30, 2019</u>	<u>Increases</u>	<u>Reductions</u>	<u>June 30, 2020</u>	<u>Amounts Due Within One Year</u>
Capital lease	<u>\$ 3,505,606</u>	<u>\$ -</u>	<u>\$ (261,394)</u>	<u>\$ 3,244,212</u>	<u>\$ 260,716</u>

The following is a schedule of future minimum lease payments under the capital lease together with the present value of the minimum lease payments as of June 30, 2020:

<u>Year</u>	<u>Amount</u>
2021	\$ 407,300
2022	375,969
2023	375,969
2024	<u>2,554,305</u>
Total minimum lease payments	3,713,543
Less amount representing interest	<u>(469,331)</u>
Present value of minimum lease payments under capital leases	3,244,212
Less current maturities	<u>(260,716)</u>
Long-term portion	<u>\$ 2,983,496</u>

The building is subleased to a nonrelated party. The above lease commitment will be offset by \$1,441,678 in sublease rental income through the year ending June 30, 2024. Amortization of the leased building is included with depreciation expense. Interest expense for the capital lease obligation was \$133,370 in fiscal year 2020.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 12—Property rental revenues

The Research Foundation leases grounds, office, and laboratory space to customers, primarily in the technology research and development industry, under operating leases. Initial lease terms generally range from 36 to 120 months.

Investments in assets subject to operating leases are as follows at June 30, 2020:

Buildings, at cost	\$ 56,448,292
Accumulated depreciation	<u>(28,254,803)</u>
Net investments in assets subject to operating leases	<u><u>\$ 28,193,489</u></u>

Depreciation expense related to the buildings leased to other parties was \$2,667,995 for fiscal year 2020.

Future minimum lease payments expected to be received under noncancelable operating leases as of June 30, 2020 are as follows:

<u>Year</u>	<u>Total Amount</u>	<u>Related Party</u>
2021	\$ 9,283,508	\$ 8,291,337
2022	8,013,406	7,326,045
2023	7,834,399	7,137,919
2024	6,343,137	5,699,944
2025	5,716,713	5,420,733
Thereafter	<u>42,082,243</u>	<u>42,082,243</u>
	<u><u>\$ 79,273,406</u></u>	<u><u>\$ 75,958,221</u></u>

Note 13—Operating lease commitment

In fiscal year 2018, the Research Foundation entered into a five-year lease commitment of office space to commence in fiscal year 2019. The lease expires in fiscal year 2024.

Future minimum lease payments expected to be paid under the noncancelable operating lease as of June 30, 2020 are as follows:

<u>Year</u>	<u>Amount</u>
2021	\$ 648,085
2022	661,095
2023	673,636
2024	<u>112,622</u>
	<u><u>\$ 2,095,438</u></u>

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 14—Commitment

In fiscal year 2020, the Research Foundation entered into a Credit Agreement with another DSO of the University and a bank. Pursuant to the Credit Agreement, the Research Foundation has committed to provide equity of approximately \$15,000,000 towards the cost of a mixed use laboratory and office project, on or prior to the issuance of a certificate of occupancy. The project will be located in the USF Research Park on real property subleased by Research Foundation to the other DSO under a ground sublease agreement, and will be subsequently leased back to the Research Foundation by the other DSO under a master lease agreement. Upon project completion, a capital asset and capital lease obligation will be recorded.

To provide security to the other DSO and the bank, the Research Foundation will assign the leases and lease revenue from the project. Leases and lease revenue from buildings 3650, 3702, and 3802 Spectrum were also assigned to the bank.

The Research Foundation was required by the Credit Agreement to fund a Debt Service Reserve Fund in the amount of \$1,983,334 to be held by the bank as security for the loan and note executed by the other DSO. In addition thereto, the master lease agreement executed with the other DSO required the Research Foundation to pay \$530,583 debt service coverage factor to the bank. The combined payments in fiscal year 2020 of \$2,513,917 are included as a noncurrent asset in the statement of net position.

Under terms of the Master Lease agreement, base rent equal to the monthly interest cost commenced in January 2020. In fiscal year 2020, the Research Foundation paid base rent in the amount of \$400,641 which was recorded as construction period interest and is included with interest expense.

Terms of the master lease further require the Research Foundation to pay an escalating annual principal payment commencing January 2021 in the amount of \$899,748.

Note 15—Related party transactions

The University leases a building from the Research Foundation, under a master lease agreement through 2036 or the expiration of the long-term debt, if earlier (see Note 9). In addition thereto, other research laboratories and office space are leased to the University under operating leases which expire through fiscal year 2027. Total rent revenues from the University were \$8,083,040 for fiscal year 2020.

The Research Foundation invoices intellectual property licensees for reimbursement of patent costs that are due to the University. Total amounts invoiced in fiscal year 2020 of \$395,938 for patent costs recovery are not reflected in the accompanying statement of revenues, expenses, and changes in net position. Patent costs recovered from intellectual property cash receipts of \$551,340 were remitted by the Research Foundation to the University in fiscal year 2020. A net liability of \$145,038 for accrued patent costs due to the University less outstanding receivables from licensees for reimbursement of costs, are included in the due to University of South Florida payable in the statement of net position.

In accordance with agreements, the Research Foundation has administrative responsibility for post-award management of certain non-clinical contracts and grants on behalf of the University. Post-award management includes processing sponsor invoicing and related expenditures for those contracts and grants. In fiscal year 2020, the Research Foundation processed \$270,935 of grant expenditures, of which \$149,037 were disbursements made to the University. These contract and grant revenues and expenditures are not reflected in the accompanying statement of revenues, expenses, and changes in net position. When permitted by the agreement, an administrative fee is charged for processing expenditures, and is recognized as administrative fee revenue. The Research Foundation recognized administrative fee revenue in the amount of \$12,945 for these services in fiscal year 2020. The custodial fund balance for the University grant agreements of \$455,777 is included in the due to University payable in the statement of net position.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 15—Related party transactions (continued)

By agreement with the University, the Research Foundation has custodial responsibility of proceeds received from sales of Graphicstudio artwork and processes disbursement of Graphicstudio's business expenditures. Graphicstudio's net position of \$220,525 at June 30, 2020 is included in the statement of fiduciary net position.

On behalf of the University, the Research Foundation processed tenant rents and sponsor support for the Tampa Bay Technology Incubator ("TBTI") program of \$1,328,500 during fiscal year 2020. The Research Foundation also processed \$272,662 of TBTI program expenditures, in addition to other expenditures for support of the program that were directly processed by the University. An administrative fee is charged for processing transactions and is recognized as administrative fee revenue. The Research Foundation recognized administrative fee revenue in the amount of \$74,177 for these services in fiscal year 2020. The net position restricted for the USF Incubator Program of \$2,100,861 at June 30, 2020 is included in the statement of fiduciary net position.

Included in the due to University of South Florida payable in the statement of net position as of June 30, 2020 are Research funds held on behalf of University faculty, department, and colleges in the amount of \$4,449,911 that will be utilized to support their research and education activities. The Research Foundation distributes royalties from intellectual property net revenue to these research funds. During fiscal year 2020, the Research Foundation recognized royalty distribution expenses of \$324,759 and \$219,832, respectively, to University departments and colleges' research funds, of which \$342,177 and \$187,555, respectively, were distributed. Accrued royalties payable of \$393,933 are included in the due to University payable in the statement of net position.

Under agreements with the University, the Research Foundation is engaged to manage renovations of research facilities to support University research within the USF Research Park. At June 30, 2020, funding received in excess of costs incurred of \$228,841 is included in the due to University payable in the statement of net position.

The President of the Research Foundation was the co-founder and member of the board for two companies that each received a loan of \$50,000 in fiscal year 2014 as part of the Seed Capital Accelerator Program. The terms of the notes were consistent with the Seed Capital Accelerator Program as disclosed in Note 7. In fiscal year 2020, conversion rights were exercised on the two promissory notes and interest receivable into common stock (non-marketable shares).

All personnel of the Research Foundation are employees of the University with employee benefits and compensated absences accounted for on the University's books. The University tracks, administers, and reports all payroll and fringe benefit costs for Research Foundation personnel, which are then reimbursed to the University by the Research Foundation. In fiscal year 2020, salary and fringe benefit costs were \$1,296,767.

Note 16—Contingencies

COVID-19 is a global pandemic, which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant declines and volatility in the financial markets. The coronavirus outbreak and government responses are creating disruption to global supply chains and adversely impacting many industries. The outbreak could have a material, adverse impact on economic and market conditions and trigger a period of global economic shutdown. Although it is not possible to reliably estimate the length and severity of this outbreak and hence its financial impact, the Research Foundation has seen a decrease in investment returns. Other financial impacts could occur that are unknown at this time.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020

	Program Services	Management and General	Total
Depreciation Expense	\$ 2,806,734	\$ -	\$ 2,806,734
Royalty Expense	1,701,680	-	1,701,680
Utilities	1,342,400	-	1,342,400
Repairs and Maintenance	1,250,016	56,487	1,306,503
Salary and Wages	573,497	537,542	1,111,039
Rental Expense	643,724	-	643,724
Fringe Benefits	185,544	168,128	353,672
Insurance	265,881	10,876	276,757
Independent Contractors	213,885	27,685	241,570
Materials and Supplies	130,901	16,945	147,846
Technology Costs	121,975	-	121,975
Amortization Expense	115,912	-	115,912
Professional Fees	26,690	61,414	88,104
Telephone	36,769	11,064	47,833
Real Estate Tax	47,743	-	47,743
Grant Administrative Fees	23,994	-	23,994
Bank Fees	2,453	2,251	4,704
Travel	2,618	286	2,904
Postage and Freight	-	2,487	2,487
Subscriptions and Memberships	509	625	1,134
Printing Costs	-	236	236
Bad Debt Expense, net	(28,076)	-	(28,076)
Total Operating Expenses	\$ 9,464,849	\$ 896,026	\$ 10,360,875

**Report of Independent Auditor 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***

To the Board of Directors
University of South Florida
Research Foundation, Inc.
Tampa, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of the University of South Florida Research Foundation, Inc. (the "Research Foundation"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Research Foundation's basic financial statements, and have issued our report thereon dated October 14, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Research Foundation's internal control over financial reporting ("internal control") as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Research Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Research Foundation's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described below, that we consider to be a material weakness.

**Aggregate Remaining Funds Opinion Unit (Fiduciary Funds):
Material Weakness in Internal Controls over the Allocation of Cash**

Criteria: The Research Foundation is responsible for establishing and maintaining internal controls over its cash reconciliation, disbursement and inter-entity allocation process that allows management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

Condition: The Research Foundation and the fiduciary funds are comingled in one back account. During the year ending June 30, 2020, the Research Foundation used funds designated to the fiduciary funds to cover operating expenses of the Research Foundation.

Cause: Insufficient review and reconciliation of cash disbursements against available cash balances of the respective entity.

Effect: The Research Foundation inadvertently used fiduciary designated funds of approximately \$113,000 to cover Research Foundation expenditures. This caused the Research Foundation's cash balance to be overstated and the fiduciary fund cash balance to be understated by approximately \$113,000.

Recommendation: The Research Foundation would benefit from improving the reconciliation and review process for cash disbursements and inter-entity allocation to ensure funds held in trust are not spent contrary to the intended use. Improvements in this process would also result in management being able to transfer funds from the Research Foundation's money market account, which had sufficient funds to cover this deficit, in a timely manner. The Research Foundation would also benefit from the use of a separate bank account for cash held in trust for the fiduciary entities to help maintain proper segregation of funds.

Management's Response: As a result of this audit, management has a better understanding of GASB requirements for the accounting of fiduciary funds. Management will ensure that a minimum cash balance is maintained in the operating bank account at all times which would be sufficient for the sum of fiduciary funds cash balances. At no time has the Research Foundation lacked available cash to cover its own operating expenses and debt reserve requirements.

The responsibility for oversight of fiduciary funds is taken seriously by management, to include ongoing monitoring and reconciliation of those fund balances. Oversight procedures are in place to ensure cash receipts, disbursements and transfers are properly recorded for the numerous custodial and fiduciary fund balances entrusted to us. All expenditures for these funds are reviewed without exception for adherence to expenditure guidelines for the respective fiduciary activity. Fiduciary funds are continually reconciled and monitored on a regular basis. In addition to current controls, we incorporated improvements to system reporting of each fiduciary's "claim on cash" into the design of the new IT system/ Banner conversion that had a go-live date in August 2020 for the Research Foundation. Our new system also decreases the use of excel to reconcile fiduciary funds.

In early quarter 2 of fiscal year 2020, \$4.0 million of cash funds was transferred from the operating bank account to a Vanguard treasury money market account. By definition, the money market account is highly liquid and could be categorized as a cash equivalent. A transfer of funds could occur without delay. The \$4.0 million transfer of funds was considered by management to be a conservative measure to address excess liquidity and custodial credit risk, while maintaining unrestricted access to those funds. The exception cited of \$113,000 occurred on June 29, 2020 in our final check run of the fiscal year.

The introduction of separate bank accounts, ideally for each fiduciary fund, would be overly cumbersome with increased opportunity for errors. Separate bank accounts would require ongoing transfer of cash between the accounts as multiple cash receipts of fiduciary funds from payees, are routinely co-mingled with Research Foundation cash receipts.

The Research Foundation's Response to Finding

The Research Foundation's response to the finding identified in our audit is described above. The Research Foundation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Compliance and Other Matters

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

Purpose of this Report

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

Cherry Bekant LLP

Tampa, Florida
October 14, 2020