

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

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

As of and for the Year Ended June 30, 2023

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 Audit of the Financial Statements

Opinions

We have audited the accompanying 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”), a component unit of the University of South Florida, as of and for the year ended June 30, 2023, 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.

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 the aggregate remaining fund information of the Research Foundation, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flow thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Research Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Research Foundation’s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Research Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Research Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary 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 accompanying schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 20, 2023, 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 Research Foundation's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Tampa, Florida
October 20, 2023

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2023

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, 2023, and should be read in conjunction with the financial statements and notes thereto. 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 \$176.7 million at June 30, 2023. This balance reflects a decrease of \$8.3 million (4.5%) from total assets of \$185.0 million at June 30, 2022. Total liabilities decreased \$1.0 million (1.9%) to \$50.1 million at June 30, 2023 from total liabilities of \$51.1 million at June 30, 2022. Deferred inflows of resources decreased \$6.8 million (12.2%) to \$49.2 million at June 30, 2023 from \$56.0 million at June 30, 2022. The Research Foundation's net position decreased by \$490 thousand (0.6%), resulting in a year-end balance of \$77.4 million at June 30, 2023.

Operating revenues were \$11.7 million in fiscal year 2023 for a decrease of \$2.3 million (16.4%) from \$14.0 million in the prior fiscal year. Operating expenses of \$15.2 million in fiscal year 2023 increased by \$533 thousand (3.6%) from \$14.7 million in fiscal year 2022. An operating loss of \$3.5 million in fiscal year 2023 reflects an increase of \$2.8 million (437.4%) from fiscal year 2022 operating loss of \$649 thousand.

Net nonoperating revenue was \$3.0 million in fiscal year 2023, for an increase of \$20.4 million (117.2%) from fiscal year 2022 net nonoperating expense of \$17.4 million. For fiscal year 2023, the decrease in net position was \$490 thousand, compared to a decrease in net position of \$18.0 million for fiscal year 2022.

Overview of Financial Statements

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, liabilities, and deferred inflows of resources 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, less total liabilities and deferred inflows of resources 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)

JUNE 30, 2023

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>2023</u>	<u>2022</u>
ASSETS		
Current assets	\$ 52,908,406	\$ 57,902,971
Restricted cash	3,238,917	3,209,751
Capital assets, net	76,174,065	74,180,139
Noncurrent lease receivables	44,237,213	49,546,060
Other noncurrent assets	124,953	145,079
Total Assets	<u>176,683,554</u>	<u>184,984,000</u>
LIABILITIES		
Current	12,621,320	11,333,376
Noncurrent	<u>37,494,448</u>	<u>39,766,926</u>
Total Liabilities	<u>50,115,768</u>	<u>51,100,302</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow related to leases	<u>49,206,579</u>	<u>56,032,123</u>
NET POSITION		
Net investment in capital assets	37,245,883	25,629,915
Restricted	2,513,917	2,513,917
Unrestricted	<u>37,601,407</u>	<u>49,707,743</u>
Total Net Position	<u>\$ 77,361,207</u>	<u>\$ 77,851,575</u>

Total current assets were \$52.9 million at June 30, 2023 for a decrease of \$5.0 million (8.6%) from total current assets of \$57.9 million at June 30, 2022. Total investments decreased \$2.0 million (4.6%) from \$44.6 million in fiscal year 2022 to \$42.6 million in fiscal year due to a redemption of investments for \$4.3 million to fund debt service and construction costs for the mixed use laboratory and office project building ("3814 Spectrum") and \$500 thousand of dividend distributions offset by an increase in the fair market value of \$2.7 million.

Net capital assets of \$76.2 million at June 30, 2023 represent a net increase of \$2.0 million (2.7%) from June 30, 2022. The net increase resulted from fiscal year 2023 capital asset additions of \$1.2 million for capitalized cost of buildings and equipment, and an increase of \$6.4 million for construction costs in process and depreciation charges of \$3.8 million.

Noncurrent leases receivables decreased \$5.3 million (10.7%) to \$44.2 million in fiscal year 2023 from \$49.5 million in fiscal year 2022 as maturities of lease receipts were recognized.

Total liabilities decreased \$1.0 million (1.9%) to \$50.1 million at June 30, 2023 from \$51.1 million at June 30, 2022. Current liabilities increased \$1.3 million (11.4%) to \$12.6 million due to an increase payable related to construction activities at 3814 Spectrum, and noncurrent liabilities decreasing \$2.3 million (5.7%) to \$37.5 million due to debt service payments.

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

JUNE 30, 2023

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>2023</u>	<u>2022</u>
Operating revenues	\$ 11,717,917	\$ 14,022,116
Operating expenses	<u>15,204,158</u>	<u>14,670,850</u>
Operating loss	(3,486,241)	(648,734)
Net nonoperating revenue (expense)	<u>2,995,873</u>	<u>(17,391,918)</u>
Decrease in net position	(490,368)	(18,040,652)
Net position, beginning of year	<u>77,851,575</u>	<u>95,892,227</u>
Net position, end of year	<u>\$ 77,361,207</u>	<u>\$ 77,851,575</u>

Operating Revenues

Operating revenues by source for the fiscal years ended June 30 were as follows:

	<u>2023</u>	<u>2022</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Property rental revenues as invoiced to tenants	\$ 10,009,998	\$ 10,211,834	\$ (201,836)	-2.0%
Less interest income	<u>(882,758)</u>	<u>(577,461)</u>	<u>(305,297)</u>	52.9%
Property rental revenues	<u>9,127,240</u>	<u>9,634,373</u>	<u>(507,133)</u>	-5.3%
Royalties, licenses, and option fees	<u>2,264,087</u>	<u>3,868,344</u>	<u>(1,604,257)</u>	-41.5%
Contracts and grants	150,818	342,683	(191,865)	-56.0%
Administrative fees	<u>175,772</u>	<u>176,716</u>	<u>(944)</u>	-0.5%
Total Operating Revenues	<u>\$ 11,717,917</u>	<u>\$ 14,022,116</u>	<u>\$ (2,304,199)</u>	-16.4%

Property rental revenues were \$9.1 million in fiscal year 2023 for a decrease of \$507 thousand (5.3%) from the prior fiscal year reported revenue. A component of lease receivables will include interest income. The decrease in property rents as invoiced to tenants of \$202 thousand (2.0%) was due to a decrease in recovery of operating costs.

Operating revenues from royalties, licenses and option fees excluding license fees attributed to non-cash equity transactions, decreased \$1.6 million (41.5%) in fiscal year 2023. Decrease primarily attributed to transactions which originated from intellectual property license agreements in fiscal year 2022 that did not reoccur in fiscal year 2023.

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

JUNE 30, 2023

Operating Expenses

The following summarizes the operating expenses for the fiscal years ended June 30:

	2023	2022	Increase (Decrease)	% Change
Property rental expenses	\$ 9,293,068	\$ 8,449,157	\$ 843,911	10.0%
University support - IP costs	3,298,798	2,169,203	1,129,595	52.1%
Inventor royalties	843,686	1,438,488	(594,802)	-41.3%
Inventing department and other royalties	452,086	758,252	(306,166)	-40.4%
Intellectual property costs	279,316	626,066	(346,750)	-55.4%
Contracts and grants	150,818	342,683	(191,865)	-56.0%
Seed capital expense	21,811	64,484	(42,673)	-66.2%
Management and general	864,575	822,517	42,058	5.1%
Total Operating Expenses	<u>\$ 15,204,158</u>	<u>\$ 14,670,850</u>	<u>\$ 533,308</u>	3.6%

Property rental expenses increased \$844 thousand (10.0%) to \$9.3 million in fiscal year 2023 from \$8.4 million in the prior fiscal year. The overall increase is primarily due to an increase in depreciation expense of \$1.1 million resulting from the completion of the new building at 3814 Spectrum at the end of fiscal year 2022. In addition, utility costs increased by \$237 thousand in fiscal year 2023. These increases were offset by savings resulting from projects incurred in fiscal year 2022 that were not repeated in fiscal year 2023.

University support for technology transfer office costs expense of \$3.3 million in fiscal year 2023 represents the transfer of costs that was funded by the Research Foundation for 100% of the annual operating costs of the Technology Transfer Office ("TTO") incurred by the University. TTO operating expenses are principally salaries and legal costs for patent prosecution and litigation efforts. Increase of \$1.3 million (52.1%) primarily due to the Research Foundation support increasing from 75% in fiscal year 2022 to 100% in fiscal year 2023.

Intellectual property royalty expense to include inventors and University departments and colleges collectively decreased by \$901 thousand (41.0%) in fiscal year 2023 from \$2.2 million royalty expense recorded in fiscal year 2022. Total royalty expense as a percent of intellectual property fee revenue was 59% in fiscal year 2023, a slight decrease from 65% incurred in fiscal year 2022.

Other intellectual property costs of \$279 thousand decreased \$347 thousand (55.4%) in fiscal year 2023 due to legal costs incurred in support of a settlement fee reached involving patent costs protection incurred in fiscal year 2022 that were not incurred in fiscal year 2023.

In fiscal year 2023, an additional expense to reserve for unlikely collection of the Seed Capital notes and interest 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 2023, the debt reserve was increased \$22 thousand.

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

JUNE 30, 2023

Nonoperating Revenues and Expenses

Certain revenue sources including investment income and interest income are defined 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 2023 and 2022 fiscal years:

	<u>2023</u>	<u>2022</u>	<u>Change</u>	<u>% Change</u>
Nonoperating Revenue (Expense):				
Investment (loss) income	\$ 2,760,771	\$ (17,696,629)	\$ 20,457,400	-115.6%
Interest income	1,578,563	1,739,314	(160,751)	-9.2%
Interest expense	(1,343,461)	(1,434,603)	91,142	-6.4%
Total Net Nonoperating Revenue (Expense)	<u>\$ 2,995,873</u>	<u>\$ (17,391,918)</u>	<u>\$ 20,387,791</u>	-117.2%

Nonoperating investment income of \$2.8 million was recorded in fiscal year 2023. The income included \$531 thousand unrealized loss to reflect the fiscal year 2023 decrease in fair value of equity securities acquired pursuant to intellectual property license agreements. This loss was offset by investment income of \$3.3 million which reflects the increased market performance of the investment portfolio in fiscal year 2023.

Nonoperating interest income of \$1.6 million to record interest revenue on the lease receivables for fiscal year 2023 was recorded in fiscal year 2022 which was a decrease of \$161 thousand from the \$1.7 million recorded in fiscal year 2022.

Nonoperating interest expense of \$1.3 million in fiscal year 2023 decreased \$91 thousand (6.4%) from fiscal year 2022. Interest costs include debt service for the note payable of \$421 thousand, \$794 thousand for the financed purchase obligation of the newly constructed mixed use laboratory and office building that is located in the USF Research Park, \$113 thousand for the finance purchase obligation of the UDI building and \$15 thousand for the office space lease obligation.

Condensed Statements of Cash Flows

The following summarizes cash flows for the 2023 and 2022 fiscal years:

	<u>2023</u>	<u>2022</u>
Cash flows from:		
Operating activities	\$ 1,796,567	\$ 3,651,922
Capital and related financing activities	(9,518,778)	(6,417,764)
Investing activities	<u>5,384,174</u>	<u>4,571,518</u>
Net (decrease) increase in cash	(2,338,037)	1,805,676
Cash, beginning of year	<u>5,554,180</u>	<u>3,748,504</u>
Cash, end of year	<u>\$ 3,216,143</u>	<u>\$ 5,554,180</u>

Fiscal year 2023 generated positive cash flow from operations of \$1.8 million, for a decrease of \$1.9 million (50.8%) from fiscal year 2022 operating activities which generated \$3.7 million. The decrease in operating cash flow was caused by \$2.7 million decrease in net cash flow from intellectual property activities in fiscal year 2023 when compared to the prior fiscal year 2022. The fiscal year 2023 net cash flow from operating activities of \$1.8 million, together with \$4.3 million cash flow from redemption of investment securities and an additional \$1.4 million cash flow from investing activities were used as the source of funding \$9.6 million capital and financing activities, offset by the net decrease of \$2.3 million in cash at June 30, 2023.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2023

Capital Assets

At June 30, 2023, the Research Foundation had \$120.8 million in capital assets, less accumulated depreciation of \$44.6 million, for net capital assets of \$76.2 million. Depreciation expense of \$3.8 million represents a \$1.1 million (40.3%) increase from the prior fiscal year balance of \$2.7 million due to the depreciation expense on fixed assets of 3814 Spectrum being placed into service at the end of the fiscal year ended June 30, 2022.

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

	<u>2023</u>	<u>2022</u>
Land	\$ 8,739,633	\$ 8,739,633
Construction in process	6,405,088	423,375
Buildings, net	53,069,191	56,726,559
Equipment, net	1,206,134	770,114
Right-of-use asset, net	108,422	758,950
Developer rights to Research Park, net	6,645,597	6,761,508
Total capital assets, net	<u>\$ 76,174,065</u>	<u>\$ 74,180,139</u>

As of June 30, 2023, the Research Foundation had right-to-use asset of \$1,409,479 less accumulated amortization of \$1,301,057 for right-to-use asset, net of \$108,422.

Debt Administration

At June 30, 2023, the Research Foundation had \$39.7 million in outstanding debt representing a decrease of \$2.8 million (7.1%) from the prior fiscal year balance of \$42.5 million. The decrease in debt resulted from the principal payments of \$2.1 million on previously recorded debt and the office space lease liability of \$667 thousand.

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, state, and federal research facilities on site alongside the many private sector facilities from promising 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. While there is ongoing risk of lease terminations, there continues to be encouraging interest in leasing available space within the Research Park to include the 120,000 square feet of the recently constructed mixed use laboratory and office building. Further growth is dependent on marketing efforts and market conditions.

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 Director of Finance, USF Research Foundation, Inc., 3802 Spectrum Boulevard, Suite 100, Tampa, FL 33612.

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

JUNE 30, 2023

ASSETS

Current Assets:

Cash	\$ 2,491,143
Investments and other investments	42,588,794
Accounts receivable, net	808,840
Lease receivables	6,695,554
Other current assets	324,075
	<u>52,908,406</u>

Total Current Assets

Noncurrent Assets:

Restricted cash	725,000
Restricted cash: reserve for debt service	2,513,917
Noncurrent lease receivables	44,237,213
Noncurrent receivables	124,953
Capital assets, net	76,174,065
	<u>123,775,148</u>

Total Noncurrent Assets

Total Assets

176,683,554

LIABILITIES

Current Liabilities:

Accounts payable and accrued liabilities	2,278,236
Due to University of South Florida	7,907,786
Unearned revenues	162,820
Current portion of lease liability	113,743
Current portion of notes payable	870,000
Current portion of financed purchase obligation	1,288,735
	<u>12,621,320</u>

Total Current Liabilities

Noncurrent Liabilities:

Note payable, less current portion	12,125,000
Financed purchase obligations, less current portion	25,369,448
	<u>37,494,448</u>

Total Noncurrent Liabilities

Total Liabilities

50,115,768

DEFERRED INFLOWS OF RESOURCES

Deferred inflow related to leases	<u>49,206,579</u>
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NET POSITION

Net investment in capital assets	37,245,883
Restricted	2,513,917
Unrestricted	37,601,407
	<u>77,361,207</u>
Total Net Position	<u>\$ 77,361,207</u>

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

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

YEAR ENDED JUNE 30, 2023

Operating Revenues:	
Property rental revenues	\$ 9,127,240
Royalties, licenses, and option fees	2,264,087
Contracts and grants	150,818
Administrative fees	<u>175,772</u>
Total Operating Revenues	<u>11,717,917</u>
Operating Expenses:	
Property rental expenses	9,293,068
University support - intellectual property costs	3,298,798
Inventor royalties	843,686
Inventing department and other royalties	452,086
Intellectual property costs	279,316
Contracts and grants	150,818
Seed capital expense	21,811
Management and general	<u>864,575</u>
Total Operating Expenses	<u>15,204,158</u>
Operating Loss	<u>(3,486,241)</u>
Nonoperating Revenue (Expense):	
Investment income	2,760,771
Interest income	1,578,563
Interest expense	<u>(1,343,461)</u>
Total Nonoperating Revenue	<u>2,995,873</u>
Decrease in net position	(490,368)
Total net position, beginning of year	<u>77,851,575</u>
Total net position, end of year	<u>\$ 77,361,207</u>

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

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

YEAR ENDED JUNE 30, 2023

Cash flows from operating activities:

Property rental receipts	\$ 9,366,550
Royalties, licenses, and option fees	2,092,484
Contract and grant receipts	66,789
Management and general	121,604
Administrative fee receipts	175,772
Total Receipts	<u>11,823,199</u>
Property rental disbursements	(4,810,945)
Intellectual property disbursements	(4,929,388)
Contract and grant disbursements	(286,299)
Total Disbursements	<u>(10,026,632)</u>
Net cash flows from operating activities	<u>1,796,567</u>

Cash flows from capital and related financing activities:

Acquisition of capital assets	(5,432,915)
Principal payment on note payable	(1,500,811)
Finance purchase payments	(1,237,416)
Interest paid on notes and finance purchase obligations	(1,347,636)
Net cash flows from capital and related financing activities	<u>(9,518,778)</u>

Cash flows from investing activities:

Sale of investments	4,299,000
Purchase of investments	(339,002)
Interest income	882,758
Investment income	541,418
Net cash flows from investing activities	<u>5,384,174</u>

Net change in cash	(2,338,037)
Cash, beginning of year	<u>5,554,180</u>
Cash, end of year	<u>\$ 3,216,143</u>

Cash:

Unrestricted	\$ 2,491,143
Restricted	725,000
	<u>\$ 3,216,143</u>

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

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

YEAR ENDED JUNE 30, 2023

Reconciliation of net operating loss

to net cash flows from operating activities:

Operating loss	\$ (3,486,241)
Adjustments to reconcile net operating loss to net cash flows from operating activities:	
Depreciation and amortization expense	4,599,451
Accounts receivable provision for bad debts	11,740
Notes and interest receivable provision for net realizable value	20,126
Change in assets and liabilities:	
Accounts receivable and other receivables	(189,740)
Other current assets	(46,707)
Lease receivables	(6,812,659)
Deferred inflow on lease receivables	6,825,543
Accounts payable and accrued liabilities	189,243
Due to University of South Florida	772,880
Unearned revenue	(87,069)
Net cash flows from operating activities	<u>\$ 1,796,567</u>

Supplemental disclosure of noncash investing activities:

Net unrealized loss on investments	<u>\$ 2,211,947</u>
Capital assets in accounts payable	<u>\$ 1,160,462</u>

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

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

JUNE 30, 2023

	Custodial Funds
ASSETS	
Cash	\$ 1,767,339
Receivables	<u>187,563</u>
Total Assets	<u>1,954,902</u>
 FIDUCIARY NET POSITION	
Restricted for USF Incubator Program	1,462,500
Restricted for USF Institute for Advanced Discovery & Innovation	68,475
Restricted for USF Economic Development	219,557
Restricted for Graphicstudio	<u>204,370</u>
Total Fiduciary Net Position	<u>\$ 1,954,902</u>

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

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

YEAR ENDED JUNE 30, 2023

	Custodial Funds
Additions:	
Incubator program revenue	\$ 940,012
Incubator program sponsor support	700,000
Graphicstudio revenue	709,982
Total Additions	<u>2,349,994</u>
Deductions:	
Transfer cash to University	1,000,000
Program expenditures	334,925
Graphicstudio expenditures	604,348
Administrative fees	140,627
Total Deductions	<u>2,079,900</u>
Net increase in fiduciary net position	270,094
Fiduciary net position, beginning of year	<u>1,684,808</u>
Fiduciary net position, end of year	<u><u>\$ 1,954,902</u></u>

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

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2023

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 revenues 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.

All intellectual property developed at the University is reviewed by TTO 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*, Sections 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 Annual Comprehensive 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 financial statements 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 Research Foundation’s basic financial statements.

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

JUNE 30, 2023

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 (“U.S. GAAP”) 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, 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 amortization and reduced by the outstanding balances of any bonds, notes, or other borrowings 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.”

Measurement Focus and 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 and Other 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. Other investments include equity holdings acquired from executed intellectual property agreements and other investments made in support of research efforts. Investments are recorded at fair value. 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 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, 2023

Note 2—Summary of significant accounting policies (continued)

Lease Receivables – Lease receivables are measured based on payments using the interest method during the respective lease terms. Interest revenue on the lease receivables will be recognized in a systematic manner over the terms of the underlying leases.

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. Right-to-use asset is recorded at an amount equal to the initial measurement of the related lease liability and is amortized on a straight-line basis over the life of the related lease. Developer rights are recorded at cost and amortized on a straight-line bases over 72 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 assets that applies to a future period and will not be recognized as an expense until that time.

Deferred Inflows of Resources – In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets related to lease receivables that is applicable to future reporting periods and will not be recognized as revenue 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. The Research Foundation must be able to, and be reasonably expected to, enforce payment of contract fees before revenues are recognized.

Property rental revenue arising from leases is recognized as revenue in a straight-line basis over the lease term. At the inception of a lease where the Research Foundation is the lessor, a lease receivable and a deferred inflow of resources is recognized on the statement of net position.

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

JUNE 30, 2023

Note 2—Summary of significant accounting policies (continued)

Administrative fees from contracts and grants are deemed to be earned when the Research Foundation has incurred expenses 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 U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, 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, 2022 through October 20, 2023, the date the financial statements were available for issuance.

Note 3—Investments and other investments

At June 30, 2023, the Research Foundation has the following investments and maturities:

	Fair Market Value	Years			
		Less Than 1	1-5	6-10	More Than 10
Money market accounts	\$ 2,874,262	\$ 2,874,262	\$ -	\$ -	\$ -
Short-term corporate bond index funds	746,308	10,448	700,037	35,823	-
Bonds	565,935	-	203,565	57,102	305,267
Equity securities	2,301,380	No Maturity	-	-	-
Mutual funds	1,876,870	No Maturity	-	-	-
Partnership accounts	579,002	No Maturity	-	-	-
Pooled investments:					
Fixed income	7,132,748	1,663,259	5,469,489	-	-
Equity mutual funds	20,153,377	20,153,377	-	-	-
Real assets	3,499,084	No Maturity	-	-	-
Alternative assets	2,859,828	No Maturity	-	-	-
	<u>\$ 42,588,794</u>	<u>\$ 24,701,346</u>	<u>\$ 6,373,091</u>	<u>\$ 92,925</u>	<u>\$ 305,267</u>

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

JUNE 30, 2023

Note 3—Investments and other investments (continued)

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 monthly 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 monthly dividend, per calendar year. There were no unfunded commitments related to the Program as of June 30, 2023.

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 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.

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, 2023, the book balances of cash funds were \$4,983,482 and the bank balances were \$5,262,961. 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, 2023, the Research Foundation had bank balances of \$5,012,961 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 Securities and Exchange Commission ("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 SEC 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.

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

JUNE 30, 2023

Note 3—Investments and other investments (continued)

At June 30, 2023, 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	\$ 2,874,262	\$ -	\$ -	\$ -	\$ -	\$ 2,874,264
Short-term bond index	746,308	8,209	48,137	347,182	341,361	1,418
Bonds	565,935	212,568	6,059	79,634	81,518	186,156
Mutual funds	1,876,870	-	-	-	-	1,876,870
Fixed income	7,132,748	2,074,543	67,874	335,669	2,307,378	2,347,284
	<u>\$ 13,196,123</u>	<u>\$ 2,295,320</u>	<u>\$ 122,070</u>	<u>\$ 762,485</u>	<u>\$ 2,730,257</u>	<u>\$ 7,285,992</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”), 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).

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 are descriptions 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.

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

JUNE 30, 2023

Note 3—Investments and other investments (continued)

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 NAV provided by the administrator of the fund. 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. 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.

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, 2023.

	Total Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Money market accounts	\$ 2,874,262	\$ 2,874,262	\$ -	\$ -
Short-term corporate bond index funds	746,308	746,308	-	-
Bonds	565,935	-	565,935	-
Equity securities	2,301,380	2,301,380	-	-
Mutual funds	1,876,870	1,876,870	-	-
Partnership accounts	579,002	-	-	579,002
Total investments by fair value level	8,943,757	\$ 7,798,820	\$ 565,935	\$ 579,002
Investments measured at NAV:				
Pooled investments	33,645,037			
Total investments measured at NAV	33,645,037			
Total investments	\$ 42,588,794			

Note 4—Accounts receivable

Non fiduciary accounts receivable consist of the following at June 30, 2023:

Royalty and license fees	\$ 784,525
Property leases	95,564
Allowance for doubtful accounts	(71,250)
	<u>\$ 808,840</u>

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

JUNE 30, 2023

Note 5—Lease receivables

The Research Foundation leases buildings, offices, and laboratory space to customers, primarily in the technology research and development industry. Initial lease terms generally range from 36 to 120 months. The leases have discount rates ranging from 1.14% to 3.18%. As a lessor, the Research Foundation recognizes lease receivables and a deferred inflow of resources on the statement of net position. The deferred inflow of resources is recognized as rental revenue in a straight-line basis over the terms of the underlying leases. Lease receivables are measured based on payments using the interest method during the respective lease terms.

The schedule of maturities of leases receivable and interest income from leases as of June 30, 2023 are as follows:

<u>Year</u>	<u>Total Amount</u>			<u>Related Party</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total Receipts</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Receipts</u>
2024	\$ 6,695,554	\$ 1,421,432	\$ 8,116,986	\$ 5,125,400	\$ 1,356,651	\$ 6,482,051
2025	6,396,884	1,257,981	7,654,865	4,787,886	1,231,389	6,019,275
2026	5,134,123	1,107,011	6,241,134	4,830,851	1,105,129	5,935,981
2027	3,614,607	984,267	4,598,874	3,614,607	984,267	4,598,874
2028	3,546,447	873,228	4,419,675	3,546,447	873,228	4,419,675
2029- 2033	19,425,214	2,586,150	22,011,364	19,425,214	2,586,150	22,011,364
2034	6,119,938	139,612	6,259,551	6,119,938	139,612	6,259,551
	<u>\$ 50,932,767</u>	<u>\$ 8,369,681</u>	<u>\$ 59,302,448</u>	<u>\$ 47,450,342</u>	<u>\$ 8,276,427</u>	<u>\$ 55,726,769</u>

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

JUNE 30, 2023

Note 6—Capital assets

Capital assets consist of the following at June 30, 2023:

	<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	423,375	6,405,088	(423,375)	6,405,088
Total capital assets not being depreciated	<u>9,163,008</u>	<u>6,405,088</u>	<u>(423,375)</u>	<u>15,144,721</u>
Capital assets being depreciated:				
Buildings	91,162,648	611,663	(557,177)	91,217,134
Equipment	4,044,245	557,177	-	4,601,422
Developer rights to Research Park	8,384,270	-	-	8,384,270
Right-to-use asset - office space	1,409,479	-	-	1,409,479
Total capital assets being depreciated	<u>105,000,642</u>	<u>1,168,840</u>	<u>(557,177)</u>	<u>105,612,305</u>
Less accumulated depreciation for:				
Buildings	(34,436,089)	(3,711,854)	-	(38,147,943)
Equipment	(3,274,131)	(121,157)	-	(3,395,288)
Developer rights to Research Park	(1,622,762)	(115,911)	-	(1,738,673)
Right-to-use asset - office space	(650,529)	(650,528)	-	(1,301,057)
Total accumulated depreciation	<u>(39,983,511)</u>	<u>(4,599,450)</u>	<u>-</u>	<u>(44,582,961)</u>
Total capital assets being depreciated, net	<u>65,017,131</u>	<u>(3,430,610)</u>	<u>(557,177)</u>	<u>61,029,344</u>
Total capital assets, net	<u>\$ 74,180,139</u>	<u>\$ 2,974,478</u>	<u>\$ (980,552)</u>	<u>\$ 76,174,065</u>

Other noncurrent assets include development rights for the 87.32 acre USF Research Park of Tampa Bay, formerly known as the University Technology Center of \$8,384,270 net of accumulated amortization of \$1,622,762. 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 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 \$115,911 for fiscal year 2023.

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.

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

JUNE 30, 2023

Note 7—Notes receivable Seed Capital Accelerator Program (continued)

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. There were no new loans funded during the fiscal year ended June 30, 2022.

The net realizable value of notes receivable was \$-0- as of June 30, 2023. The balances of notes receivable and interest receivable net of reserves is included in other current assets and noncurrent receivables in the statement of net position. Note maturities are as follows:

<u>Years</u>	<u>Notes Receivable</u>	<u>Reserve</u>	<u>Net</u>
2024	\$ 581,997	\$ (581,997)	\$ -

<u>Years</u>	<u>Interest Receivable</u>	<u>Reserve</u>	<u>Net</u>
2024	\$ 99,491	\$ (99,491)	\$ -

Note 8—Accounts payable and accrued liabilities

Non fiduciary accounts payable and accrued liabilities consist of the following at June 30, 2023:

Vendors payable	\$ 1,414,551
Inventory royalties payable	473,518
Other payables	197,794
Interest payable	34,769
Escrow payable	157,604
	<u>\$ 2,278,236</u>

Note 9—Lease liability

In fiscal year 2019, the Research Foundation entered into a five-year lease agreement for office space. A lease obligation has been recorded at the present value of the future minimum lease payments expected to be made during the lease term. Future lease payments were discounted at an estimated incremental borrowing rate of 3.5%. The lease expires in fiscal year 2024.

Future lease payments to be paid under the noncancelable lease and the net present value of these payments are as follows for the fiscal year ending June 30:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2024	\$ 113,743	\$ 498	\$ 114,241

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

JUNE 30, 2023

Note 9—Lease liability (continued)

Changes in the lease liability for the year ended are as follows:

	June 30, 2022	Increases	Reductions	June 30, 2023	Amounts Due Within One Year
Lease liability	\$ 796,766	\$ -	\$ (682,525)	\$ 114,241	\$ 114,241
Total lease liability	<u>\$ 796,766</u>	<u>\$ -</u>	<u>\$ (682,525)</u>	<u>\$ 114,241</u>	<u>\$ 114,241</u>

Note 10—Long-term debt

The Research Foundation has an outstanding note from direct borrowings related to business-type activities in the amount of \$12,995,000 at June 30, 2023. 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 note from direct borrowings was issued in 2013 (Series 2013-B) to refund an outstanding Series 2004A Variable Rate Demand Revenue Bond that had been issued to finance construction of the 3720 Spectrum research building in 2004. In fiscal year 2017, the Series 2013-B note was amended to a 10-year fixed rate note. The original 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 for the 3720 Spectrum building.

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, 2023, \$725,000 is on deposit with the bank in a sinking fund account for payment of the annual principal payment. This amount has been reported as restricted cash on the statement of net position.

Changes in long-term debt for the year ended are as follows:

	June 30, 2022	Increases	Reductions	June 30, 2023	Amount Due Within One Year
Note payable:					
2013-B	\$ 13,830,000	\$ -	\$ (835,000)	\$ 12,995,000	\$ 870,000
Total note payable	<u>\$ 13,830,000</u>	<u>\$ -</u>	<u>\$ (835,000)</u>	<u>\$ 12,995,000</u>	<u>\$ 870,000</u>

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

JUNE 30, 2023

Note 10—Long-term debt (continued)

The following is a schedule of maturities and interest expense:

<u>Years</u>	<u>Maturities</u>	<u>Interest</u>
2024	\$ 870,000	\$ 387,881
2025	905,000	359,194
2026	940,000	329,395
2027	975,000	298,483
2028	1,015,000	266,312
2029 - 2033	5,690,000	803,878
2034 - 2035	2,600,000	131,440
	<u>\$ 12,995,000</u>	<u>\$ 2,576,583</u>

Future obligations of interest expense are based on the fixed rate in effect as of June 30, 2023, and may not be representative of actual rates in those later periods.

Interest expense for the 2013-B Note was \$421,488 in fiscal year 2023.

Note 11—Financed purchase obligations

The Research Foundation entered into an agreement with another DSO of the University in fiscal year 2019, under which ownership of the University Diagnostic Institute (“UDI”) building will transfer to the Research Foundation when all terms of the agreement are met. A capital asset was recorded in the amount of \$3,505,606 in fiscal year 2019. Amortization of the building is included with depreciation expense. Interest expense for the finance purchase obligation was \$113,109 in fiscal year 2023. The building is subleased to a nonrelated party.

In fiscal year 2020, the Research Foundation entered into a credit agreement with another DSO of the University and a bank for construction of a mixed use laboratory and office building (“3814 Spectrum”). The 3814 Spectrum building is located in the USF Research Park on real property subleased by Research Foundation to the other DSO under a ground sublease agreement, and leased back to the Research Foundation by the other DSO under a master lease agreement. Under terms of the agreement, ownership of the property and improvements will transfer to the Research Foundation when all terms of the agreement are met. In fiscal year 2022, a capital asset and finance purchase obligation was recorded. Under terms of the master agreement, base payments equal to the monthly interest cost commenced in January 2020. Interest expense for the finance purchase obligation was \$794,092 in fiscal year 2023.

Pursuant to the credit agreement, the Research Foundation has committed to provide equity of approximately \$15,000,000 towards the cost of the 3814 Spectrum building. To provide security to the other DSO and the bank, the Research Foundation will assign the agreements and revenue from the 3814 Spectrum building. Agreements and revenue from buildings 3650, 3702, and 3802 Spectrum were also assigned to the bank.

In fiscal year 2020, 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 3814 Spectrum 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 in fiscal year 2020 to the bank. The combined payments of \$2,513,917 are included as a noncurrent asset in the statement of net position.

The Research Foundation intends to use the assets for its entire estimated useful life and depreciates similar capital assets using the straight-line method.

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

JUNE 30, 2023

Note 11—Financed purchase obligations (continued)

Changes in the financed purchase obligations for the year ended June 30, 2023 are as follows:

	<u>June 30, 2022</u>	<u>Increases</u>	<u>Reductions</u>	<u>June 30, 2023</u>	<u>Amounts Due Within One Year</u>
UDI building	\$ 2,731,755	\$ -	\$ (262,860)	\$ 2,468,895	\$ 274,471
3814 Spectrum building	25,163,844	-	(974,556)	24,189,288	1,014,264
Total financed purchases	<u>\$ 27,895,599</u>	<u>\$ -</u>	<u>\$ (1,237,416)</u>	<u>\$ 26,658,183</u>	<u>\$ 1,288,735</u>

The following is a schedule of future payments under the financed purchase obligations together with the present value of the payments as of June 30, 2023:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 1,288,735	\$ 863,590	\$ 2,152,325
2025	1,342,186	818,163	2,160,349
2026	1,397,853	770,843	2,168,696
2027	1,455,818	721,553	2,177,371
2028	1,516,204	670,208	2,186,412
2029 - 2033	7,687,446	2,483,649	10,171,095
2034 - 2038	8,202,168	1,287,166	9,489,334
2038 - 2040	3,767,773	122,457	3,890,230
Total	<u>\$ 26,658,183</u>	<u>\$ 7,737,629</u>	<u>\$ 34,395,812</u>

Note 12—Property rental revenues

Investments in assets subject to leases are as follows at June 30, 2023:

Buildings, at cost	\$ 91,460,022
Accumulated depreciation	<u>(37,554,639)</u>
Net investments in assets subject to leases	<u>\$ 53,905,383</u>

Depreciation expense related to the buildings leased to other parties was \$3,711,854 for fiscal year 2023.

Lease related revenues recognized for the year ended June 30, 2023 are as follows:

Lease revenue	
Buildings	\$ 4,993,683
Office space	4,192,984
Variable and other rents	<u>(59,427)</u>
Total rental revenue	9,127,240
Interest income	<u>1,578,563</u>
	<u>\$ 10,705,803</u>

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

JUNE 30, 2023

Note 13—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 12). In addition, thereto, other research laboratories, office space and a building are leased to the University under leases which expire through fiscal year 2027. Total rent revenues from the University were \$7,580,123 for fiscal year 2023.

The Research Foundation invoices intellectual property licensees for reimbursement of patent costs that are due to the University. Total amounts invoiced in fiscal year 2023 of \$715,220 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 \$810,483 are recorded in accounts payable as due to the University at June 30, 2023. An additional net liability of \$96,264 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 2023, the Research Foundation processed \$311,615 of grant expenditures, of which \$197,396 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 \$35,145 for the post-award management services in fiscal year 2023. The custodial fund balance for the University grant agreements of \$385,259 is included in the due to University payable in the statement of net position.

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. 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 \$48,171 for these services in fiscal year 2023. Graphicstudio's net position of \$204,370 at June 30, 2023 is included in the statement of fiduciary net position.

On behalf of the University, the Research Foundation processes tenant rents and sponsor support for the USF Incubator Program. The Research Foundation also processes certain Incubator program expenditures, in addition to transferring available funds to the University for program expenditures that are directly managed by the University. An administrative fee is charged for processing transactions and is recognized as administrative fee revenue. The Research Foundation recognized \$92,455 administrative fee revenue for these services in fiscal year 2023. The net position for the USF Incubator Program of \$1,462,500 at June 30, 2023 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, 2023 are Research funds held on behalf of University faculty, department, and colleges in the amount of \$4,929,111 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 2023, the Research Foundation recognized royalty distribution expense of \$241,040 and \$170,843, respectively, to University departments and colleges' research funds, of which \$173,934 and \$126,567, respectively, were distributed. Accrued royalties payable of \$235,798 are 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, 2023

Note 13—Related party transactions (continued)

The due to University of South Florida payable also includes \$434,515 accrued payable to research funds related to equity holdings acquired from executed intellectual property agreements. The accrued payable is based on fair value of the equity securities as of June 30, 2023, and is distributable upon the sale of the stocks.

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, 2023, funding received in excess of costs incurred of \$225,468 is included in the due to University payable in the statement of net position.

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 2023, salary and fringe benefit costs were \$1,249,560.

SUPPLEMENTAL INFORMATION

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

YEAR ENDED JUNE 30, 2023

	Program Services	Management and General	Total
Depreciation expense	\$ 3,800,750	\$ 32,261	\$ 3,833,011
Repairs and maintenance	1,690,956	38,512	1,729,468
Royalty expense	1,295,793	-	1,295,793
University support - technology transfer office costs	3,298,798	-	3,298,798
Utilities	1,756,573	-	1,756,573
Salary and wages	537,430	480,549	1,017,979
Amortization expense	766,440	-	766,440
Technology licensing costs and other	261,845	-	261,845
Insurance	436,305	11,655	447,960
Fringe benefits	175,381	169,880	345,261
Professional fees	146,122	96,843	242,965
Independent contractors	10,025	1,960	11,985
Bad debt expense	31,866	-	31,866
Materials and supplies	17,914	19,588	37,502
Telephone	35,240	11,030	46,270
Real estate tax	26,761	-	26,761
Grant administrative fees	13,081	-	13,081
Bank fees	7,669	-	7,669
Travel	10,800	-	10,800
Subscriptions and memberships	19,464	474	19,938
Participant stipends and tuition	370	-	370
Postage and freight	-	1,325	1,325
Printing costs	-	498	498
Total Operating Expenses	\$ 14,339,583	\$ 864,575	\$ 15,204,158

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, 2023, 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 20, 2023.

Report on 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. We identified a certain deficiency in internal control, described in the attached schedule of findings and question costs as item 2023-01 that we consider to be a significant deficiency.

Report on 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 statements. 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*.

The Research Foundation's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Research Foundation's response to the findings identified in our audit and described in the attached schedule of findings and questioned cost. The Research Foundation's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Research Foundation'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 Research Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Tampa, Florida
October 20, 2023

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2023

2023-01 Significant Deficiency in Internal Controls over the Financing Reporting Process

Criteria: The Research Foundation is responsible for establishing and maintaining internal controls over its financial reporting including the timely and accurate closing of the financial reporting process at year-end.

Condition: During the audit, it was discovered that contractor invoices for work performed prior to year-end, were not properly recognized in the finance records at June 30, 2023 in accordance with generally accepted accounting principles.

Cause: The accounting policies in place did not address procedures and controls to ensure construction invoices were properly recognized in the appropriate period.

Effect: An audit adjustment was made to appropriately recognize construction in progress and accounts payable related to construction invoices in the amount of approximately \$1,100,000.

Recommendation: We recommend that the Research Foundation enhance its accounting policies to ensure that construction invoices are recognized when the liability has been incurred.

Management's Response: We agree with the finding and have enhanced our accounting policies to ensure that construction invoices are recognized when the liability is incurred.