

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

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

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 _____, 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 _____ in considering the Research Foundation's internal control over financial reporting and compliance.

Tampa, Florida
October 14, 2020

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:

	2020	2019
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	96,563,873	96,239,616
DEFERRED OUTFLOWS		

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
 MANAGEMENT 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 y

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:

	2020	2019	Increase (Decrease)	% Change
Property rental expenses	\$ 7,164,108	\$ 6,780,301	\$ 383,807	5.7%
Inventor royalties				

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
 MANAGEMENT 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 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	<u>212,780</u>	<u>248,140</u>
Total capital assets, net	<u>\$ 41,080,273</u>	<u>\$ 42,853,560</u>

Debt

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
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
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
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
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
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	<u>(1,059,780)</u>
Total Net Nonoperating Revenue	875,073
Increase in net position	3,438,252
Total net position, beginning of year	66,487,922
Total net position, end of year	\$ 69,926,174

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

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	3,120,594
LIABILITIES	
Accounts payable	40,944
Total Liabilities	40,944

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	2,388,566
Deductions:	
Program expenditures	841,160
Graphicstudio expenditures	713,5Instit15

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

JUNE 30, 2020

Note 1—Organization

– 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.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Summary of significant accounting policies

– 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 is classified and displayed in three components:

– 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.

– 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.

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

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.

– 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 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 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 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

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

JUNE 30, 2020

Note 3—Investments and other

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 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 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 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

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

JUNE 30, 2020

Note 3—Investments and other investments (continued)

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

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	Level1	Level2	Level3
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	27,440,374			
Total Investments Measured at NAV	27,440,374			
Total Investments	\$ 43,454,855			

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	<u>(79,291)</u>
	<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

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

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		<u>332,690</u>
	\$	<u><u>1,637,526</u></u>

Note 9—Long term debt

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>

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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:

Year

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

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	<u>\$ 9,464,849</u>	<u>\$ 896,026</u>	<u>\$ 10,360,875</u>

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 _____ 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 fina

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

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 .

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 in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Tampa, Florida
October 14, 2020