

**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, 2022

And Reports of Independent Auditor

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR	1-3
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)	4-10
BASIC FINANCIAL STATEMENTS	
Statement of Net Position.....	11
Statement of Revenues, Expenses, and Changes in Net Position	12
Statement of Cash Flows.....	13-14



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, 2022, 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, 2022, 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 that 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 the accounting principles generally accepted in the United States of America. The Auditor's responsibilities for the audit of the financial statements are described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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. G110.00tp6 Tc -0.08rn0.07cthe ne6 c -0.of the Rhial statemde3s8c

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2022, 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.



Tampa, Florida
October 12, 2022

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

YEAR ENDED JUNE 30, 2022

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, 2022, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of the Research Foundation's management.

Financial Highlights

The Research Foundation's total assets were \$185.0 million at June 30, 2022. This balance reflects an increase of \$55.9 million (43.3%) from total assets of \$129.1 million at June 30, 2021. Total liabilities increased \$17.9 million (53.8%) to \$51.1 million at June 30, 2022 from total liabilities of \$33.2 million at June 30, 2021. At June 30, 2022 a deferred inflows of resources was \$56.0 million which was not required in the fiscal year ended June 30, 2021. The Research Foundation's net position decreased by \$18.0 million (18.8%), resulting in a year-end balance of \$77.9 million at June 20, 2022.

Operating revenues were \$14.0 million in fiscal year 2022 for a decrease of \$6.3 million (31.1%) from \$20.3 million for the prior fiscal year. Operating expenses of \$14.7 million in fiscal year 2022 increased by \$4.5 million (43.5%) from \$10.2 million in fiscal year 2021. An operating loss of \$649 thousand in fiscal year 2022 reflects a decrease of \$10.8 million (106.4%) from fiscal year 2021 operating income of \$10.1 million.

Net nonoperating expenses of nonoperating revenue were \$17.4 million in fiscal year 2022, for a decrease of \$33.2 million (209.8%) from fiscal year 2021 net nonoperating revenue of \$15.8 million. For fiscal year 2022, the decrease in net position was \$18.0 million, compared to an increase in net position of \$26.0 million for fiscal year 2021.

Overview of Financial Statements

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

The statement of net position reflects the assets and liabilities of the Research Foundation, using the accrual basis of accounting, and presents the financial position of the Research Foundation at a specified time. The difference between total assets, 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

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

YEAR ENDED JUNE 30, 2022

Total liabilities increased \$17.9 million (53.8%) to \$51.1 million at June 30, 2022 from \$33.2 million at June 30, 2021. Current liabilities decreased \$5.3 million (32.0%) to \$11.3 million with noncurrent liabilities increasing \$23.2 million (140.1%) to \$39.8 million.

The fiscal year 2022 decrease of \$5.3 million in current liabilities include \$1.2 million decrease in accounts payable and accrued liabilities principally attributed to a decrease of \$960 thousand (72.1%) in the payable for inventor royalties resulting from increased distributions. Total distributions of inventor royalties increased \$1.8 million to \$2.4 million in fiscal year 2022 from \$552 thousand distributed in fiscal year 2021. The current liability for amounts due to the University of South Florida decreased by a net amount of \$5.9 million (44.4%) to \$7.4 million at June 30, 2022 from \$13.3 million at June 30, 2021. The payable decreased by \$6.6 million due to a decline in fair value of equity securities acquired pursuant to intellectual property license agreements based on fair value at June 30, 2022 when compared to June 30, 2021.

As further disclosed in the notes to the financial statements, the current portion of debt collectively increased by

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

YEAR ENDED JUNE 30, 2022

Operating Revenues

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

	2022	2021	Increase (Decrease)	% Change
Property rental revenues as invoiced to tenants	\$ 10,211,834	\$ 9,667,127	\$ 544,707	5.6%
GASB 87 implementation: Adjust for interest income	(577,461)	-	(577,461)	100.0%
	9,634,373	9,667,127	(32,754)	-0.3%
Royalties, licenses, and option fees	3,868,344	2,560,553	1,307,791	51.1%

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

YEAR ENDED JUNE 30, 2022

Operating Expenses

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

	<u>2022</u>	<u>2021</u>	<u>(Decrease)</u>	<u>Change</u>
Property rental expenses	\$ 8,449,157	\$ 7,220,574	\$ 1,228,583	17.0%
University support - IP costs	2,169,203	-	2,169,203	100.0%
Inventor royalties	1,438,488	1,098,827	339,661	30.9%
Inventing department and other royalties	758,252	593,251	165,001	27.8%
Intellectual property costs	626,066	143,948	482,118	334.9%
Contracts and grants	342,683	286,911	55,772	19.4%
Seed capital expense	64,484	87,050	(22,566)	-25.9%
Management and general	822,517	792,435	30,082	3.8%
Total Operating Expenses	<u>\$ 14,670,850</u>	<u>\$ 10,222,996</u>	<u>\$ 4,447,854</u>	43.5%

Property rental expenses increased \$1.2 million (17.0%) to \$8.4 million in fiscal year 2022 from \$7.2 million in the prior fiscal year. The overall increase is primarily due to repairs and maintenance costs which increased \$1.1 million (84.6%) to include \$422 thousand for flooding remediation of a retention pond located within the Research Park, \$383 thousand for subsurface stabilization that was necessary for a property located within the Research Park, and \$377 thousand landscaping costs incurred for the property adjoining the newly constructed building.

University support for intellectual property expense of \$2.2 million in fiscal year 2022 represents the transfer of costs that was funded by the Research Foundation for 75% 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.

Intellectual property royalty expense to include inventors and University departments and colleges collectively increased to \$2.2 million (29.8%) in fiscal year 2022 from \$1.7 million royalty expense recorded in fiscal year 2021. Total royalty expense as a percent of intellectual property fee revenue was 65% in fiscal year 2022, remaining comparable to 66% incurred in fiscal year 2021.

Other intellectual property costs of \$626 thousand increased \$482 thousand (334.9%) in fiscal year 2022 due to legal costs incurred in support of a settlement fee reached involving patent costs protection.

In fiscal year 2022, 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 2022, the debt reserve was increased \$64 thousand.

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

YEAR ENDED JUNE 30, 2022

Nonoperating Revenues and Expenses

Certain revenue sources including investment income and interest 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 2022 and 2021 fiscal years:

	2022	2021	Change	% Change
Nonoperating Revenue (Expense):				
Investment (loss) income	\$ (17,696,629)	\$ 17,373,197	\$ (35,069,826)	-201.9%
Interest income	1,739,314	8,063	1,731,251	21471.5%
Interest expense	(1,434,603)	(1,547,351)	112,748	-7.3%
Total Net Nonoperating Revenue (Expense)	\$ (17,391,918)	\$ 15,833,909	\$ (33,225,827)	-209.8%

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

YEAR ENDED JUNE 30, 2022

Capital Assets

At June 30, 2022, the Research Foundation had \$104.4 million in capital assets, less accumulated depreciation of \$37.7 million, for net capital assets of \$66.7 million. Due to the timing of fiscal year 2022 asset additions being placed into service, depreciation expense of \$2.7 million remained consistent for the fiscal years ended June 30, 2022 and 2021.

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

	2022	2021
Land	\$ 8,739,633	\$ 8,739,633
Construction in process	423,375	2,432,313

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

JUNE 30, 2022

ASSETS

Current Assets:

Cash	\$ 4,858,346
Investments and other investments	44,632,857
Accounts receivable, net	630,840
Lease receivables	7,503,561
Other current assets	<u>277,367</u>
Total Current Assets	<u>57,902,971</u>

Noncurrent Assets:

Restricted cash	695,834
Right-to-use asset, net	758,950
Capital assets, net	66,659,681
Developer rights to Research Park, net	6,761,508
Noncurrent lease receivables	49,546,060
Noncurrent receivables	145,079
Reserve for debt service	<u>2,513,917</u>
Total Noncurrent Assets	<u>127,081,029</u>
Total Assets	<u><u>184,984,000</u></u>

LIABILITIES

Current Liabilities:

Accounts payable and accrued liabilities	932,685
Due to University of South Florida	7,412,575
Current portion of lease liability	665,811
Current portion of notes payable	835,000
Current portion of financed purchase lease obligation	1,237,416
Unearned revenues	<u>249,889</u>
Total Current Liabilities	<u>11,333,376</u>

Noncurrent Liabilities:

Lease liability, less current portion	113,743
Note payable, less current portion	12,995,000
Financed purchase lease obligations, less current portion	<u>26,658,183</u>
Total Noncurrent Liabilities	<u>39,766,926</u>
Total Liabilities	<u><u>51,100,302</u></u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflow related to leases	<u>56,032,123</u>
-----------------------------------	-------------------

Net investment in capital assets	25,629,915
Restricted	2,513,917
Unrestricted	<u>49,707,743</u>
Total Net Position	<u><u>\$ 77,851,575</u></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, 2022

Operating Revenues:	
Property rental revenues	\$ 9,634,373
Royalties, licenses, and option fees	3,868,344
Contracts and grants	342,683
Administrative fees	<u>176,716</u>
Total Operating Revenues	<u>14,022,116</u>
Operating Expenses:	
Property rental expenses	8,449,157
University support - intellectual property costs	2,169,203
Inventor royalties	1,438,488
Inventing department and other royalties	758,252
Intellectual property costs	626,066
Contracts and grants	342,683
Seed capital expense	64,484
Management and general	<u>822,517</u>
Total Operating Expenses	<u>14,670,850</u>
Operating (Loss)	<u>(648,734)</u>
Nonoperating Revenue (Expense):	
Investment loss	(17,696,629)
Interest income	1,739,314
Interest expense	<u>(1,434,603)</u>
Total Net Nonoperating (Expense)	<u>(17,391,918)</u>
Decrease in net position	(18,040,652)
Total net position, beginning of year	<u>95,892,227</u>
Total net position, end of year	<u>\$ 77,851,575</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, 2022

Cash flows from operating activities:

Property rental receipts	\$ 9,332,540
Royalties, licenses, and option fees	4,932,586
Contract and grant receipts	537,855
Management and general	413,514
Administrative fee receipts	176,716
	<u>15,393,211</u>

Property rental disbursements	(5,062,267)
Intellectual property disbursements	(6,379,677)
Contract and grant disbursements	(299,345)
	<u>(11,741,289)</u>

Net cash flows from operating activities	<u>3,651,922</u>
--	------------------

Cash flows from capital and related financing activities:

Acquisition of capital assets	(2,360,227)
Principal payment on note payable	(1,434,925)
Finance purchase lease payments	(1,188,149)
Interest paid on notes and finance purchase lease obligations	(1,434,463)
	<u>(6,417,764)</u>

Cash flows from investing activities:

Sale of investments	3,501,376
Purchase of investments	(1,376)
Interest income	577,462
Investment income	494,056
	<u>4,571,518</u>

Net change in cash	1,805,676
Cash, beginning of year	3,748,504
Cash, end of year	<u>\$ 5,554,180</u>

Cash:

Unrestricted	\$ 4,858,346
Restricted	695,834
	<u>\$ 5,554,180</u>

(continued)

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, 2022

(continued)

Reconciliation of net operating revenues (expenses)

to net cash flows from operating activities:

Operating income	\$ (648,734)
Adjustments to reconcile net operating revenues (expenses) to net cash flows from operating activities:	
Depreciation and amortization expense	3,497,941
Accounts receivable provision for bad debts	43,150
Notes and interest receivable provision for net realizable value	64,484
Change in assets and liabilities:	
Accounts receivable and other receivables	1,063,500
Other current assets	(124,190)
Lease receivables	(56,032,123)
Deferred inflow on lease receivables	56,032,123
Other assets	56,401
Accounts payable and accrued liabilities	(1,210,012)
Due to University of South Florida	792,560
Unearned revenue	116,822
Net cash flows from operating activities	<u>\$ 3,651,922</u>

Supplemental disclosure of noncash investing activities:

Net unrealized loss on investments	<u>\$ (18,254,683)</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, 2022

	Custodial Funds
ASSETS	
Cash	\$ 1,501,435
Receivables	187,985
Total Assets	1,689,420
LIABILITIES	
Accounts payable	4,612
Total Liabilities	4,612
FIDUCIARY NET POSITION	
Restricted for USF Incubator Program	1,215,711
	Restricted for USF Economic D
	Restricted for Graphicstudio

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, 2022

	Custodial Funds
Additions:	
Incubator program revenue	\$ 803,017
Incubator program sponsor support	500,000
Graphicstudio revenue	619,006
Total Additions	1,922,023
Deductions:	
Transfer cash to University	1,000,000
Program expenditures	311,035
Graphicstudio expenditures	574,762
Administrative fees	127,032
Total Deductions	2,012,829
Net decrease in fiduciary net position	(90,806)

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, 2022

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, 2022

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 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.

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

JUNE 30, 2022

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.

Notes Receivable – Notes receivable consists of amounts funded to companies through the Seed Capital Accelerator Program (see Note 9) and are recorded at net realizable value. The Research Foundation's policy is to record an initial provision for 50% of the outstanding note balance, and increase the allowance when collection appears unlikely for the estimated net realizable value, given consideration of conversion features associated with the note and specific review of the start-up company.

Restricted Cash – Cash whose use is restricted for debt service is segregated on the stat

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

JUNE 30, 2022

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.

Adoption of GASB 87 - Effective July 1, 2021, the Research Foundation implemented GASB Statement No. 87, *Leases*. GASB 87 establishes standards for accounting and financial reporting for leases by lessors and lessees. As a lessor, the Research Foundation recognizes lease receivables and a deferred inflow of resources on the statement of net position, and will recognize the deferred inflow of resources as revenue in a systematic and rational manner over the term of the respective leases on the statement of changes in net position. As a lessee, the Research Foundation will record a right-to-use asset and a corresponding lease liability on the statement of net position, and will amortize the leased asset on a straight-line basis over the lease term on the statement of changes in net position. The effect on the financial statements as a result of this implementation was to record a lease receivable asset together with a deferred inflow of resources in the amount of \$64,540,144 as well as a right-to-use asset and lease liability in the amount of \$1,409,479 on the statement of net position as of July 1, 2021. There was no effect on net position as a result of this implementation.

Subsequent Events – The Research Foundation evaluated all events and transactions that occurred from July 1, 2022 through October 12, 2022, the date the financial statements were available for issuance.

Note 3—Investments and other investments

At June 30, 2022, the Research Foundation has the following investments and maturities:

	Years				
	Fair Market Value	Less Than 1	1-5	6-10	More Than 10
Money market accounts	\$ 2,810,871	\$ 2,810,871	\$ -	\$ -	\$ -
Short-term corporate bond index funds	2,508,691	35,122	2,353,152	120,417	-
Bonds	944,721	-	364,264	144,965	435,492
Equity securities	3,301,150	No Maturity	-	-	-
Mutual funds	3,233,219	No Maturity	-	-	-
Partnership accounts	249,999	No Maturity	-	-	-
Pooled investments:					
Fixed Income	7,138,030	1,487,860	5,650,170	-	-
Equity mutual funds	17,402,898	17,402,898	-	-	-
Real assets	3,916,442	No Maturity	-	-	-
Alternative assets	3,126,836	No Maturity	-	-	-
	<u>\$ 44,632,857</u>	<u>\$ 21,736,751</u>	<u>\$ 8,367,586</u>	<u>\$ 265,382</u>	<u>\$ 435,492</u>

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

JUNE 30, 2022

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

JUNE 30, 2022

Note 3—Investments and other investments (continued)

At June 30, 2022, 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	\$ 2,810,871	\$ -	\$ -	\$ -	\$ -	\$ 2,810,871
Short-term bond index	2,508,691	27,596	161,811	1,167,043	1,147,475	4,766
Bonds	944,721	366,338	8,087	142,167		

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

JUNE 30, 2022

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, 2022.

	Total Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Money market accounts	\$ 2,810,871	\$ 2,810,871	\$ -	\$ -
Short-term corporate bond index funds	2,508,691	2,508,691	-	-
Bonds	944,721	-	944,721	-
Equity securities	3,301,150	3,301,150	-	-
Mutual funds	3,233,219	3,233,219	-	-
Partnership accounts	249,999	-	-	249,999
Total investments by fair value level	13,048,651	\$ 11,853,931	\$ 944,721	\$ 249,999
Investments measured at NAV:				
Pooled investments	31,584,206			
Total investments measured at NAV	31,584,206			
Total investments	\$ 44,632,857			

Note 4—Accounts receivable

Non fiduciary accounts receivable consist of the following at June 30, 2022:

Royalty and license fees	\$ 707,902
Property leases	38,263
Allowance for doubtful accounts	(115,325)
	<u>\$ 630,840</u>

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

JUNE 30, 2022

Note 5—Lease receivables

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

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

JUNE 30, 2022

Note 9—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

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

JUNE 30, 2022

Note 11—Lease liability

In fiscal year 2019 the Research Foundation entered into a five-year lease agreement for office space. The lease agreement qualified as other than a short-term lease under GASB 87 and therefore 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 minimum lease payments to be paid under the noncancelable lease and the net present value of these payments are as follows for the fiscal years ending June 30:

Total

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

JUNE 30, 2022

Note 12—Long-term debt (continued)

The following is a schedule of maturities and interest expense:

<u>Years</u>		Maturities	Interest
2023		\$ 835,000	\$ 415,454
2024		870,000	387,881
2025		905,000	359,194
2026		940,000	329,395
2027		975,000	298,483
i0.0001		Tc	

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

JUNE 30, 2022

Note 13—Financed purchase lease obligations (continued)

Changes in the financed purchase lease obligations for the year ended June 30, 2022 are as follows:

	<u>June 30, 2021</u>	<u>Increases</u>	<u>Reductions</u>	<u>June 30, 2022</u>	<u>Amounts Due Within One Year</u>
UDI building	\$ 2,983,496	\$ -	\$ (251,741)	\$ 2,731,755	\$ 262,860
3814 Spectrum building		26,100,252	(936,408)	25,163,844	974,556
Total financed purchases	<u>\$ 2,983,496</u>	<u>\$ 26,100,252</u>	<u>\$ (1,188,149)</u>	<u>\$ 27,895,599</u>	<u>\$ 1,237,416</u>

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

JUNE 30, 2022

Note 15—Related party transactions

The University leases a building from the Research Foundation, under a master lease agreement through 2036 or the expiration of the long-term debt, if earlier (see Note 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 we

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

JUNE 30, 2022

Note 15—Related party transactions (continued)

The due to University of South Florida payable also includes \$736,445 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, 2022, 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, 2022, funding received in excess of costs incurred of \$1,148,291 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 2022, salary and fringe benefit costs were \$1,142,832.

SUPPLEMENTAL INFORMATION

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

YEAR ENDED JUNE 30, 2022

	Program Services	Management and General	Total
Depreciation Expense	\$ 2,699,240	\$ 32,261	\$ 2,731,501
Repairs and Maintenance	2,409,446	39,579	2,449,025
Royalty Expense	2,196,740	-	2,196,740
University Support - Technology Transfer Office Costs	2,169,203	-	2,169,203
Utilities	1,511,096	-	1,511,096
Salary and Wages	606,130	421,294	1,027,424
Amortization Expense	766,441	-	766,441



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, 2022, 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 12, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 Research Foundation’s internal control. Accordingly, we do not express an opinion on the effectiveness of 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

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