

**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, 2015

And Reports of Independent Auditor

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR	1-2
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)	3-10
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	11
Statement of Revenues, Expenses, and Changes in Net Position	12
Statement of Cash Flows.....	13-14
Notes to Financial Statements.....	15-26
SUPPLEMENTAL SCHEDULE	
Schedule of Functional Expenses	27
COMPLIANCE	
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 <i>Government Auditing Standards</i>	28-29

Report of Independent Auditor

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

Report on the Financial Statements

We have audited the accompanying financial statements 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, 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Research Foundation, as of June 30, 2015, and the changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2015, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Research Foundation's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Cherry Bekant LLP".

Tampa, Florida
September 25, 2015

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEAR ENDED JUNE 30, 2015

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, 2015, 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 increased \$864 thousand (0.9%) to \$92.5 million at June 30, 2015, from \$91.6 million at June 30, 2014. Liabilities decreased \$3.0 million (6.6%) to \$42.5 million as of June 30, 2015, compared to \$45.5 million at June 30, 2014. As a result of the above, and corresponding excess of revenues over expenses as described below, the Research Foundation's net position increased by \$2.6 million (5.3%), reaching a year-end balance of \$51.7 million.

The Research Foundation's operating revenues were \$11.9 million for an increase of \$389 thousand (3.4%) from the prior fiscal year. Fiscal year 2015 operating expenses decreased \$158 thousand (1.8%) to \$8.5 million.

Operating income for fiscal year 2015 was \$3.4 million, for an increase of \$547 thousand (19.1%) from the prior fiscal year.

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

The statement of net position reflects the assets, deferred outflows of resources and liabilities of the Research Foundation, using the accrual basis of accounting, and presents the financial position of the Research Foundation at a specified time. The difference between total assets and deferred outflows of resources, and total liabilities, net position is one indicator of the Research Foundation's current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the Research Foundation's financial condition.

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

YEAR ENDED JUNE 30, 2015

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

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets	\$ 34,111,161	\$ 31,298,436
Restricted cash and cash equivalents	1,133,334	1,091,667
Capital assets, net	48,509,698	50,512,902
Other investments	419,148	362,556
Other non-current assets	<u>8,295,685</u>	<u>8,339,211</u>
Total Assets	<u>92,469,026</u>	<u>91,604,772</u>
DEFERRED OUTFLOWS OF RESOURCES		
Interest rate swap	<u>1,691,644</u>	<u>2,936,960</u>
LIABILITIES		
Current	9,211,716	9,283,327
Non-current	<u>33,246,644</u>	<u>36,171,960</u>
Total Liabilities	<u>42,458,360</u>	<u>45,455,287</u>
NET POSITION		
Net Investment in capital assets	16,408,032	16,739,569
Unrestricted	<u>35,294,278</u>	<u>32,346,876</u>
Total Net Position	<u>\$ 51,702,310</u>	<u>\$ 49,086,445</u>

The Research Foundation's assets totaled \$92.5 million at June 30, 2015. Current assets at June 30, 2015, are \$34.1 million representing an increase of \$2.8 million (9.0%) from June 30, 2014. The increase in current assets includes an increase in cash of \$1.1 million, investments increased \$1.6 million, and accounts receivable increased \$148 thousand, which account for the \$2.8 million net increase. The net increase in investments of \$1.6 million resulted from investment gain of \$748 thousand, additional investment of \$1.0 million from operating funds, less \$150 thousand redemption of investments for funding seed capital loans.

Net capital assets decreased \$2.0 million (4.0%) to \$48.5 million at June 30, 2015 from \$50.5 million at June 30, 2014. Capital asset additions of \$804 thousand, less fiscal year 2015 depreciation charge of \$2.8 million account for the net decrease.

Other investments increased by \$57 thousand (15.6%), as a result of recording the fair value of equity investments of \$419 thousand less the \$362 thousand remaining basis of the MESI investment that was sold in fiscal year 2015. Other non-current assets decreased by \$43 thousand.

The decrease in deferred outflows of resources of \$1.2 million is due to the payment of the associated debt related to the interest rate swap agreements.

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

YEAR ENDED JUNE 30, 2015

Total liabilities decreased \$3.0 million (6.6%) which includes a decrease of \$72 thousand in current liabilities and a decrease of \$2.9 million in non-current liabilities. The decrease in current liabilities results from an increase of \$410 thousand in accounts payable and accrued liabilities, less \$440 thousand decrease in payables due to University of South Florida, and other current liability reductions of \$42 thousand.

Long-term debt decreased by \$2.9 million which consists of the Interest rate swap liability decreasing by \$1.2 million due to payments on the notes payable in fiscal year 2015, and \$1.7 million reduction in long-term notes payable.

Net position is reported in two major categories. The first category, net investment in capital assets provides the Research Foundation's equity in property, plant, and equipment owned by the Research Foundation and includes amounts representing restricted cash and cash equivalents. The second category is unrestricted net position. Unrestricted net position is available to the Research Foundation for any lawful purpose of the Research Foundation. The combination of changes in both total assets and in total liabilities resulted in a net increase in total net position of \$2.6 million. The increase in total net position includes a decrease in net investment in capital assets of \$332 thousand, and an increase in unrestricted net position of \$2.9 million.

The Statement of Revenues, Expenses, and Changes in Net Position

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

The following summarizes the Research Foundation's activities for the 2015 and 2014 fiscal years ended June 30:

	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 11,900,783	\$ 11,512,066
Operating expenses	<u>8,486,971</u>	<u>8,644,796</u>
Operating income	3,413,812	2,867,270
Net non-operating revenues (expenses)	<u>(797,947)</u>	<u>1,924,426</u>
Increase in net position	2,615,865	4,791,696
Net position, beginning of year	<u>49,086,445</u>	<u>44,294,749</u>
Net position, end of year	<u><u>\$ 51,702,310</u></u>	<u><u>\$ 49,086,445</u></u>

Operating Revenues

GASB Statement No. 35 categorizes revenues as either operating or non-operating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either give up or receive something of equal or similar value.

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

YEAR ENDED JUNE 30, 2015

The following summarizes the operating revenues by source that were used to fund operating activities during the 2015 and 2014 fiscal years ended June 30:

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Property rental revenues	\$ 7,485,069	\$ 7,679,794	\$ (194,725)	-2.5%
Royalties, licenses and option fees	2,121,169	1,401,146	720,023	51.4%
Other license fees	307,000	390,104	(83,104)	-21.3%
Contracts and grants	69,629	88,298	(18,669)	-21.1%
Administrative fees	161,096	169,434	(8,338)	-4.9%
Economic development support	119,847	261,990	(142,143)	-54.3%
Incubator sponsor revenue	1,100,000	1,075,000	25,000	2.3%
Incubator program revenue	536,973	446,300	90,673	20.3%
Total Operating Revenues	<u>\$ 11,900,783</u>	<u>\$ 11,512,066</u>	<u>\$ 388,717</u>	3.4%

The Research Foundation's operating revenues totaled \$11.9 million for fiscal year 2015, representing an increase of \$389 thousand from the prior fiscal year.

Property rental revenues were \$7.5 million in fiscal year 2015, for a decrease of \$195 thousand (2.5%). The decrease in rents is attributed to the multi-tenant office building (MTOB) which decreased \$207 thousand (14.2%) as a competitive solicitation process and extended lease negotiations with a significant new tenant in the MTOB were not finalized until early fiscal year 2016. Other building rents collectively had a slight increase of \$12 thousand (0.2%) over fiscal year 2014 rents.

Operating revenues from Intellectual Property increased \$720 thousand (51.4%) to \$2.1 million in fiscal year 2015. In addition thereto, the Research Foundation, acting as an agent for the University, also invoiced certain intellectual property licensees for reimbursement of patent costs in the amount of \$576 thousand in fiscal year 2015, a decrease of 44% from \$1.0 million invoiced in fiscal year 2014. The invoiced amounts for patent costs are not reflected in the Research Foundation's operating revenues. Other non-operating income from intellectual property was also recognized in fiscal year 2015, as discussed below.

An equipment use license agreement with the University was renewed at a reduced amount from prior years thus accounting for the decrease of \$83 thousand in fiscal year 2015 (21.3%) for other license fees.

The decrease in administrative fees of \$8 thousand (4.9%) to \$161 thousand in fiscal year 2015 is attributed to \$19 thousand decrease in fees from managing property renovation projects, while administrative fees earned from processing grants and other sources, increased \$11 thousand.

The Research Foundation continues to pursue post-award management of private industry contracts and grants with the University. The operating revenue of contracts and grants correlates to an operating expense entitled the same, with each reporting a decrease of \$19 thousand (21.1%) in fiscal year 2015. These line items represent only those contracts and grants where the Research Foundation is the contracting party. Other contracts and grants where the University is the contracting party, have been eliminated and are reported by the University.

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

YEAR ENDED JUNE 30, 2015

In fiscal year 2015, the bioscience research and development grant with Hillsborough County concluded. The grant reported as Economic Development Support revenue by the Research Foundation, commenced in fiscal year 2009 and provided a total of \$6.0 million in funding capital equipment purchases and build out of facilities specifically related to the grant. The final draws totaling \$120 thousand were received in fiscal year 2015, for a decrease of \$142 thousand (54.3%) from fiscal year 2014.

Incubator sponsor revenue increased \$25 thousand (2.3%) for additional funding of the Student Innovation Incubator (SII) program. The SII program has made shared space available for University students to create and grow new businesses, and have access to resources to include mentors and business guidance.

Incubator program revenue increased \$91 thousand (20.3%) in fiscal year 2015 to \$537 thousand. The growth in revenue was generated with additional lab space rented (\$55 thousand), increases in incubator tenant rents of office space (\$33 thousand) and increase in non-resident affiliate fees (\$3 thousand).

Operating Expenses

Expenses are categorized as operating or non-operating. The majority of the Research Foundation's expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The Research Foundation has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net position.

The following summarizes the operating expenses for the 2015 and 2014 fiscal years ended June 30:

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Property rental expenses	\$ 4,728,336	\$ 4,679,044	\$ 49,292	1.1%
Inventor royalties	356,305	427,001	(70,696)	-16.6%
Inventing department and other royalties	325,205	273,126	52,079	19.1%
Other intellectual property costs	229,587	500,847	(271,260)	-54.2%
Contracts and grants	69,629	88,298	(18,669)	-21.1%
University support	82,082	73,807	8,275	11.2%
Seed capital expense	75,000	210,000	(135,000)	-64.3%
Incubator program expenses	1,842,534	1,578,993	263,541	16.7%
Management and general	778,293	813,680	(35,387)	-4.3%
Total Operating Expenses	<u>\$ 8,486,971</u>	<u>\$ 8,644,796</u>	<u>\$ (157,825)</u>	-1.8%

The Research Foundation's operating expenses totaled \$8.5 million for fiscal year 2015, representing a decrease of \$158 thousand (1.8%) from the prior fiscal year.

Property rental expenses were \$4.7 million in fiscal year 2015, increasing slightly by \$49 thousand (1.1%). Significant changes include an increase in depreciation of \$100 thousand, and reduction in insurance expense of \$32 thousand for the research park properties.

Intellectual property royalties collectively decreased \$19 thousand (2.7%) to \$681 thousand in fiscal year 2015. Royalties include \$356 thousand to inventors, and \$325 thousand to inventor and college research funds, departments, and royalties to other entities.

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

YEAR ENDED JUNE 30, 2015

Other intellectual property costs decreased 54% to \$230 thousand in fiscal year 2015, from \$501 thousand in fiscal year 2014. These costs include reimbursement of additional technology/patent costs to the University (\$141 thousand), reserve provision for bad debt expense (\$72 thousand) and other technology licensing expense (\$17 thousand).

Seed capital expense is recorded at 50% of loans funded through the seed capital accelerator program. The expense represents the estimated net realizable value of the loans, based on the conversion features associated with the notes. In fiscal year 2015, \$150 thousand was disbursed.

Incubator program expenses increased \$264 thousand (16.7%) to \$1.8 million in fiscal year 2015. The increase is largely attributed to additional rent expense of \$145 thousand associated with new lab space, increase of \$91 thousand in personnel costs for full time program director and a student incubator coordinator, and \$28 thousand increase in other costs with expansion of the incubator program.

Management and general costs decreased \$35 thousand (4.3%) to \$778 thousand in fiscal year 2015, with savings in insurance and general operating costs.

Non-Operating Revenues and Expenses

Certain revenue sources including investment income are defined by GASB as non-operating. Non-operating expenses include capital financing costs and other costs related to capital assets. The following summarizes the Research Foundation's non-operating revenues and expenses for the 2015 and 2014 fiscal years:

	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>% Change</u>
Non-Operating Revenues				
(Expenses):				
Investment income	\$ 1,018,355	\$ 3,374,632	\$ (2,356,277)	-69.8%
Interest expense	(1,816,302)	(1,884,980)	68,678	-3.6%
Contributions	-	434,774	(434,774)	-100.0%
Total Non-Operating Revenues (Expenses)	<u>\$ (797,947)</u>	<u>\$ 1,924,426</u>	<u>\$ (2,722,373)</u>	-141.5%

Non-operating investment income revenue of \$1.0 million includes realized income of \$1.3 million, interest income of \$20 thousand, an unrealized loss of \$430 thousand associated with decrease in market values, and unrealized investment gains of \$104 thousand recognized in fiscal year 2015 to record the fair value of equity securities received from Intellectual Property license agreements. Decrease in market returns in fiscal year 2015 from fiscal year 2014 account for the significant change in investment income.

Recognition of contribution revenue for the value of the FLEX facility donated to the Research Foundation by the University was recognized as other income in fiscal year 2014.

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

YEAR ENDED JUNE 30, 2015

The Statements of Cash Flows

The statements of cash flows provide information about the Research Foundation's financial results by reporting the major sources and uses of cash. This statement will assist in evaluating the Research Foundation's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash provided by the operating activities of the Research Foundation. Cash flows from the capital and related financing activities include all property funds and related long-term debt activities. Cash flows from the investing activities show the net source and use of cash related to purchasing or selling investments, and the receipt of income on those investments.

The following summarizes cash flows for the 2015 and 2014 fiscal years:

	<u>2015</u>	<u>2014</u>
Cash provided (used) by:		
Operating activities	\$ 6,026,533	\$ 5,034,727
Capital and related financing activities	(4,403,349)	(4,982,843)
Investing activities	(490,333)	421,286
Net increase in cash and cash equivalents	1,132,851	473,170
Cash and cash equivalents, at beginning of year	<u>2,270,096</u>	<u>1,796,926</u>
Cash and cash equivalents, end of year	<u>\$ 3,402,947</u>	<u>\$ 2,270,096</u>

Fiscal year 2015 generated a positive cash flow from operations of \$6.0 million. This represents an increase of \$992 thousand from fiscal year 2014. Included in the calculation of net cash provided by operating activities are cash receipts, which increased \$718 thousand to \$11.7 million, reduced by cash disbursements of \$5.7 million, which decreased \$274 thousand in fiscal year 2015.

Net cash used by capital and financing activities consists principally of purchases and construction of capital assets of \$804 thousand, \$1.6 million payment of debt, debt associated interest costs of \$1.8 million and seed capital loans of \$150 thousand.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2015, the Research Foundation had \$68.5 million in capital assets, less accumulated depreciation of \$20.0 million, for net capital assets of \$48.5 million.

Depreciation expense for the fiscal years ended June 30, 2015 and 2014 totaled \$2.8 million and \$2.7 million, respectively.

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

	<u>2015</u>	<u>2014</u>
Land	\$ 8,739,633	\$ 8,739,633
Construction in process	334,415	77,351
Buildings, net	36,626,757	38,416,640
Equipment, net	<u>2,808,893</u>	<u>3,279,278</u>
Total capital assets, net	<u>\$ 48,509,698</u>	<u>\$ 50,512,902</u>

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEAR ENDED JUNE 30, 2015

Additional information about the Research Foundation's capital assets is presented in the notes to the financial statements.

Debt Administration

As of June 30, 2015, the Research Foundation had \$33.2 million in outstanding debt representing a decrease of \$1.63 million, or 4.7%, from the prior fiscal year balance of \$34.9 million. Additional information about the Research Foundation's long-term debt is presented in the notes to the financial statements.

Economic Factors That Will Affect the Future

The Research Foundation owns and operates the USF Research Park with the core philosophy of an innovation complex that brings together interdisciplinary research teams in an environment of collaboration with private sector research enterprise. The Research Park is finding success with its mission as evidenced by its housing of top funded University faculty in its research facilities, to include the #1 research funded faculty position as recognized for fiscal year 2015. Additionally, the private sector tenants continue to demonstrate positive job creation and collaboration with University faculty on grant proposals.

Leases for existing structures and ground lease transactions within the USF Research Park are a significant source of revenue for the organization. As a result of leasing activities and property renovations, occupancy of approximately 98% is expected to generate additional revenue in fiscal year 2016 and beyond. Further growth is dependent on marketing efforts and market conditions. Continued development of the USF Research Park as a hub for biotechnology and life sciences research and entrepreneurship and expansion of the Incubator program remain as primary goals.

Development of the next Business Partnership Building is underway, which along with strategic master planning, will enhance the dynamic biotechnology cluster by positioning scientists and entrepreneurs side-by-side to develop innovations and advancements that succeed in both the laboratory and in the marketplace.

The Research Foundation's economic outlook is also related to continuing growth of intellectual royalty and licensing income. These income sources are expected to increase in fiscal year 2016. Revenue from administrative fees, to meet operational overhead costs, is earned through the execution of contracts and grants. This revenue source is expected to increase with additional private industry grants being administered by the Research Foundation.

Operating profits are invested in the research infrastructure throughout the University System. In line with revenue growth strategies, new infrastructure investments by the Research Foundation will be reviewed for return on investment. Net operating profits will be available for future research infrastructure investment.

Request for Information

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

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

JUNE 30, 2015

ASSETS

Current Assets:

Cash and cash equivalents	\$ 2,269,613
Investments	31,144,289
Accounts receivable, net	627,622
Other current assets	69,637

Total Current Assets	34,111,161
----------------------	------------

Non-Current Assets:

Restricted cash and cash equivalents	1,133,334
Capital assets, net	48,509,698
Developer rights to Research Park, net	7,572,889
Other investments	419,148
Non-current property rent accrual and other receivables, net	438,296
Notes receivables, net	284,500

Total Non-Current Assets	58,357,865
--------------------------	------------

Total Assets	92,469,026
---------------------	-------------------

DEFERRED OUTFLOWS OF RESOURCES

Interest rate swap	1,691,644
--------------------	-----------

LIABILITIES

Current Liabilities:

Accounts payable and accrued liabilities	1,533,352
Due to University of South Florida	5,753,624
Current portion of note payable	1,680,000
Unearned revenues	244,740

Total Current Liabilities	9,211,716
---------------------------	-----------

Non-Current Liabilities:

Note payable, less current portion	31,555,000
Derivative investment - interest rate swap liability	1,691,644

Total Non-Current Liabilities	33,246,644
-------------------------------	------------

Total Liabilities	42,458,360
--------------------------	-------------------

NET POSITION

Net investment in capital assets	16,408,032
Unrestricted	35,294,278

Total Net Position	\$ 51,702,310
---------------------------	----------------------

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

YEAR ENDED JUNE 30, 2015

Operating Revenues:	
Property rental revenues	\$ 7,485,069
Royalties, licenses, and option fees	2,428,169
Contracts and grants	69,629
Administrative fees	161,096
Economic development support	119,847
Incubator sponsor revenue	1,100,000
Incubator program revenue	536,973
Total Operating Revenues	<u>11,900,783</u>
Operating Expenses:	
Property rental expenses	4,728,336
Inventor royalties	356,305
Inventing department and other royalties	325,205
Other intellectual property costs	229,587
Contracts and grants	69,629
University support	82,082
Seed capital expense	75,000
Incubator program expenses	1,842,534
Management and general	778,293
Total Operating Expenses	<u>8,486,971</u>
Operating Income	<u>3,413,812</u>
Non-Operating Revenues (Expenses):	
Investment income	1,018,355
Interest expense	<u>(1,816,302)</u>
Total Non-Operating Revenues (Expenses)	<u>(797,947)</u>
Increase in net position	2,615,865
Total net position, beginning of year	<u>49,086,445</u>
Total net position, end of year	<u><u>\$ 51,702,310</u></u>

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

YEAR ENDED JUNE 30, 2015

Cash flows from operating activities:

Property rental receipts	\$ 7,654,415
Royalties, licenses, and option fees	2,076,892
Contract and grant receipts	80,500
Administrative fee receipts	161,096
Economic development support	132,589
Incubator program and sponsor receipts	1,644,143
Total Receipts	<u>11,749,635</u>

Property rental disbursements	(1,793,747)
Intellectual property disbursements	(1,004,966)
Contract and grant disbursements	(69,629)
Incubator program disbursements	(1,842,534)
University support, management and general	(1,012,226)
Net cash provided by operating activities	<u>6,026,533</u>

Cash flows from capital and related financing activities:

Acquisition of capital assets	(804,376)
Principal payments on long term debt	(1,630,000)
Interest paid on notes and swap liabilities	(1,819,473)
Issuance of notes receivable	(150,000)
Repayment of note receivable	500
Net cash used in capital and related financing activities	<u>(4,403,349)</u>

Cash flows from investing activities:

Investment income	1,074
Proceeds from sales of investments	658,593
Purchase of investments	(1,150,000)
Net cash used in investing activities	<u>(490,333)</u>

Net increase in cash and cash equivalents	1,132,851
Cash and cash equivalents, beginning of year	2,270,096
Cash and cash equivalents, end of year	<u><u>3,402,947</u></u>

Cash and cash equivalents:

Unrestricted	2,269,613
Restricted	1,133,334
	<u>\$ 3,402,947</u>

(continued)

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

YEAR ENDED JUNE 30, 2015

**Reconciliation of net operating revenues (expenses)
to net cash provided by operating activities:**

Operating income	\$ 3,413,812
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	2,923,491
Accounts receivable provision for bad debts	76,768
Notes receivable provision for net realizable value	75,000
Other non-cash revenue	(39,909)
Change in assets and liabilities:	
Accounts receivable and other receivables	(154,552)
Other current assets	24,924
Accounts payable and accrued liabilities	238,328
Due to University of South Florida	(439,594)
Unearned revenue	(91,735)
Net cash provided by operating activities	<u>\$ 6,026,533</u>

Supplemental Disclosure of Noncash Investing Activities

Net unrealized gain on investments	<u>\$ 748,344</u>
------------------------------------	-------------------

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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 of the University as provided for under Section 1004.28, Florida Statutes.

The Research Foundation was formed to provide broad and flexible financial mechanisms 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 office of Patents and Licensing (“Patents and Licensing”) 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 proceeds from Research Foundation activities are used to further research and other endeavors at the University.

Patents and Licensing reviews all intellectual property developed at the University to determine if the University wishes to retain its rights and interests. On intellectual work that shows the potential for University benefit, Patents and Licensing obtains patents and copyrights, assuming all costs, to include attorneys’ fees and patent application fees. All rights are retained by the University. The University licenses the entire right, title and interest in and to the intellectual property to the Research Foundation. Patent costs recovered by the Research Foundation are repaid to the University. Net revenue from the commercialization of the intellectual property are shared on a percentage basis among the inventors, a research fund in the department where the inventor is employed, a research fund for the college, and the Research Foundation.

The Research Foundation also 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.

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

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

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

JUNE 30, 2015

Note 2—Summary of significant accounting policies

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

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.

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

Investments – Investments in money markets are recorded at cost, which approximates fair value. Investments in 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 non-operating revenues in the Statements of Revenues, Expenses and Changes in Net Position.

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

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

Notes Receivable – Notes receivable consists of amounts funded to companies through the Venture Investment Fund (see Note 7) and are recorded at net realizable value. The Research Foundation's policy is to record a provision equaling 50% of the note upon issuance, for estimated net realizable value in consideration of conversion features associated with the note.

Capital Assets – Purchased capital assets are recorded at cost. Donated capital assets are recorded at fair 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 15-40 years. Equipment is depreciated on a straight-line basis over estimated useful lives ranging from 5 to 20 years.

Costs of donated assets greater than \$1,000 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.

Interest expense on borrowings incurred during the construction or upgrade of qualifying assets is capitalized and added to the cost of the underlying assets. There was no capitalized interest for the year ended June 30, 2015.

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

JUNE 30, 2015

Note 2—Summary of significant accounting policies (continued)

Deferred Outflows of Resources – In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an expense until that time. The Research Foundation's interest rate swap agreements (see Note 10) meet this criterion.

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, respectively.

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

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

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

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

Subsequent Events – The Research Foundation evaluated all events and transactions that occurred from July 1, 2015 through September 25, 2015, the date the financial statements were available for issuance. During this period there were no material recognizable subsequent events.

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

JUNE 30, 2015

Note 3—Investments and other investments

At June 30, 2015, 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	\$ 1,822,347	\$ 1,822,347	\$ -	\$ -	\$ -
Short-Term Bond Index Funds	3,874,780	23,249	3,847,657	3,874	-
Bonds	1,014,284	26,802	401,118	250,055	336,309
Equity Securities	3,760,702	no maturity	-	-	-
Mutual Funds	755,939	no maturity	-	-	-
Pooled Investment:					
Money Market Funds	259,827	259,827	-	-	-
Bond Mutual Funds	2,902,318	-	-	2,902,318	-
Partnership Funds	3,520,818	no maturity	-	-	-
Equity Mutual Funds	13,502,422	13,502,422	-	-	-
Partnership Accounts	150,000	no maturity	-	-	-
	<u>\$ 31,563,437</u>	<u>\$ 15,634,647</u>	<u>\$ 4,248,775</u>	<u>\$ 3,156,247</u>	<u>\$ 336,309</u>

Pooled investments represent the Research Foundation's interest in the USF 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 Direct Support Organizations. 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 Program pays a quarterly dividend based on the results of the Fund. Such dividends can either be withdrawn or reinvested. In addition, with sixty days' notice, the Research Foundation may withdraw either a portion of or its entire investment in the Program; however, the Research Foundation is limited to one withdrawal, other than any quarterly dividend, per calendar year.

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

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

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

JUNE 30, 2015

Note 3—Investments and other investments (continued)

Custodial Credit Risk – Custodial credit risk is the risk of loss attributed to the magnitude of the Research Foundation’s investments held by outside parties. At June 30, 2015, the book balances of deposits was \$3,402,946 and the bank balances was \$4,141,749. The Research Foundation’s bank balances are insured by the Federal Deposit Insurance Corporation up to \$250,000.

Interest Rate and Credit 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 the declining economic market and has invested funds into money market accounts and short-term bond index accounts. Overall, the Research Foundation limits the fixed income portfolio (United States Treasury securities, United States government agency obligations, mortgage-backed securities, corporate debt, 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 and Standard and Poor’s. 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, 2015, the Research Foundation has the following debt instrument quality ratings:

	Fair Market Value	AAA	AA	A	Less than A rated	Not rated
Prime Money Market	\$ 1,605,083	\$ 1,605,083	\$ -	\$ -	\$ -	\$ -
Money Market Accounts	477,091	-	-	-	-	477,091
Short-Term Bond Index	3,874,780	42,623	449,474	1,972,263	1,410,420	-
Bonds	1,014,285	9,958	135,339	188,446	127,459	553,083
Mutual Funds	755,939	-	-	-	-	755,939
Bond Mutual Funds	2,902,318	183,629	95,676	298,592	1,203,391	1,121,030
	<u>\$ 10,629,496</u>	<u>\$ 1,841,293</u>	<u>\$ 680,489</u>	<u>\$ 2,459,301</u>	<u>\$ 2,741,270</u>	<u>\$ 2,907,143</u>

Debt instruments whose quality is not rated includes \$1,538,811 of US Government/Agency, \$61,897 of not rated short-term investments, \$477,091 of not rated money market funds, and \$829,344 otherwise not rated securities.

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

JUNE 30, 2015

Note 4—Accounts receivable

Accounts receivable consist of the following at June 30, 2015:

Royalty and license fees	\$ 732,970
Contract and Grant receivables	141,312
Property leases	3,850
Incubator leases	7,675
Other receivables	14,034
Allowance for doubtful accounts	<u>(272,219)</u>
	<u>\$ 627,622</u>

Note 5—Capital assets

Capital assets consist of the following at June 30, 2015:

	<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	<u>77,351</u>	<u>334,415</u>	<u>(77,351)</u>	<u>334,415</u>
Total capital assets not being depreciated:	<u>8,816,984</u>	<u>334,415</u>	<u>(77,351)</u>	<u>9,074,048</u>
Capital assets being depreciated:				
Buildings	53,194,883	404,872	-	53,599,755
Equipment	<u>5,641,590</u>	<u>142,439</u>	<u>-</u>	<u>5,784,029</u>
Total capital assets being depreciated:	<u>58,836,473</u>	<u>547,311</u>	<u>-</u>	<u>59,383,784</u>
Less accumulated depreciation for:				
Buildings	(14,778,243)	(2,194,755)	-	(16,972,998)
Equipment	<u>(2,362,312)</u>	<u>(612,824)</u>	<u>-</u>	<u>(2,975,136)</u>
Total accumulated depreciation	<u>(17,140,555)</u>	<u>(2,807,579)</u>	<u>-</u>	<u>(19,948,134)</u>
Total capital assets being depreciated, net	<u>41,695,918</u>	<u>(2,260,268)</u>	<u>-</u>	<u>39,435,650</u>
Total capital assets, net	<u>\$ 50,512,902</u>	<u>\$ (1,925,853)</u>	<u>\$ (77,351)</u>	<u>\$ 48,509,698</u>

Note 6—Developer rights to Research Park

Other non-current assets include development rights for the 87.32 acre USF Research Park of Tampa Bay, formerly known as the University Technology Center, which the Research Foundation has accounted for as a prepaid lease of \$8,384,270 net of accumulated amortization of \$811,381. The intent of the Board of Trustees of the Internal Improvement Trust Fund when granting these rights was for a research and development park to be at the entrance to the University campus. While it is expected that the development rights will be renewed beyond the current 2081 expiration, the value of the rights are being amortized on a straight line basis over 72 years. Annual amortization expense was \$115,912 for fiscal year 2015.

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

JUNE 30, 2015

Note 7—Notes receivable venture investment fund

On September 5, 2013, the Board of Directors of the Research Foundation approved the establishment of the Seed Capital Accelerator Committee to assist the Board of Directors of the Research Foundation in fulfilling responsibilities regarding the venture investment fund which had been previously established by the Board of Directors in 1996. The purpose of the venture investment fund is 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. An initial allocation of \$100,000 plus 25% of annual long-term investment income forms the financial basis of the fund. Investment gains of \$748,344 was realized during fiscal year 2015 and, accordingly, \$187,086 was allocated to the fund during the year. The balance allocated to the venture investment fund is \$3,398,139 at June 30, 2015.

As an integral part of the research commercialization efforts, the Seed Capital Accelerator Program was designed to support new and existing Tampa Bay Technology Incubator affiliated start-up companies that were formed based on the licensing of University technologies. The 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 measureable 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 WSJ Prime Rate plus 3% as of the date of the first advance. Through fiscal year 2015, total funding of \$570,000 to fourteen companies occurred. The notes are recorded at net realizable value of \$284,500 and classified as noncurrent on the Statement of Net Position.

The following is a schedule of maturities:

<u>Year</u>	<u>Amount</u>
2016	\$ -
2017	-
2018	-
2019	419,500
2020	150,000
Total Notes Receivable	569,500
Less allowance for uncollectable	(285,000)
	<u>\$ 284,500</u>

Note 8—Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following at June 30, 2015:

Vendors payable	\$ 205,013
Interest payable	114,434
Inventor royalties payable	428,823
Other royalties payable	207,315
Escrow payable	428,475
Other payables	149,292
	<u>\$ 1,533,352</u>

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

JUNE 30, 2015

Note 9—Long-term debt

In 1999, the Research Foundation financed and refinanced capital improvements at the University Technology Center Research and Development Park, now referred to as the USF Research Park of Tampa Bay, completed the acquisition of the development rights to 35 acres of land, refinanced existing University Technology Center Buildings I and II, now referred to as 3702 Spectrum and 3650 Spectrum respectively, and refinanced the previously acquired development rights to lots 6 and 7 in the Research Park through the issuance of a Variable Rate Demand Revenue Bond (USF Research Park of Tampa Bay Project) Series 1999 Bond. The 1999 Bond was issued pursuant to a Trust Indenture dated November 23, 1999, between the Research Foundation and the Trustee. The USF Foundation guaranteed the indebtedness of the Research Foundation relative to the 1999 bond.

In 2004, the Research Foundation financed construction of the 3720 Spectrum building and 3802 Spectrum building through the issuance of three Variable Rate Demand Revenue Bonds (2004 bonds). The closing of the 2004 bonds was completed in August 2004.

In 2013, the Research Foundation issued Series 2013-A Note to refund the outstanding Series 1999 Bond. The terms of the note include an interest rate of 67% of One-Month USD-LIBOR, to be payable monthly. The interest rate was 1.265022% at June 30, 2015. Principal is payable annually. The Note matures December 1, 2019 and is secured by lease assignments in addition to guarantee by USF Foundation.

In 2013, the Research Foundation issued Series 2013-B Note to refund the outstanding Series 2004A Bond. The terms of the note include an interest rate of 67% of One-Month LIBOR, to be payable monthly. The interest rate was 1.175022% at June 30, 2015. Principal is payable annually commencing August 1, 2015. The Note matures August 1, 2034 and is secured by lease assignments.

In 2013, the Research Foundation issued Series 2013-C Note to refund the outstanding Series 2004B Bond. The terms of the note include an interest rate of One-Month LIBOR, to be payable monthly. The interest rate was 1.375% at June 30, 2015. Principal is payable annually. The Note matures August 1, 2015 and is secured by lease assignments.

In 2013, the Research Foundation issued Series 2013-D Note to refund the outstanding Series 2004C Bond. The terms of the note include an interest rate of One-Month LIBOR, to be payable monthly. The interest rate was 1.375% at June 30, 2015. Principal is payable annually. The Note matures August 1, 2034 and is secured by lease assignments.

	<u>June 30, 2014</u>	<u>Increases</u>	<u>Reductions</u>	<u>June 30, 2015</u>	<u>Amounts Due Within One Year</u>
Notes Payable					
2013-A	\$ 5,400,000	\$ -	\$ (800,000)	\$ 4,600,000	\$ 800,000
2013-B	18,455,000	-	-	18,455,000	225,000
2013-C	1,000,000	-	(595,000)	405,000	405,000
2013-D	10,010,000	-	(235,000)	9,775,000	250,000
Total Notes Payable	<u>\$ 34,865,000</u>	<u>\$ -</u>	<u>\$ (1,630,000)</u>	<u>\$ 33,235,000</u>	<u>\$ 1,680,000</u>

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. The Research Foundation is not in violation of the liquidity to funded debt ratio at June 30, 2015.

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

JUNE 30, 2015

Note 9—Long-term debt (continued)

At June 30, 2015, \$1,133,334 of funds are on deposit with the Bank in sinking fund accounts for payment of annual principal payments. These amounts have been reported in restricted cash and cash equivalents on the Statement of Net Position.

The following is a schedule of maturities and interest expense:

Year	Maturities	Interest
2016	\$ 1,680,000	\$ 398,433
2017	1,835,000	376,039
2018	1,875,000	352,669
2019	2,025,000	327,944
2020	2,070,000	317,208
2021 - 2025	6,155,000	1,263,515
2026 - 2030	7,775,000	834,544
2031 - 2035	9,820,000	267,628
	\$ 33,235,000	\$ 4,137,980

Future obligations of interest expense are based on variable rates in effect as of June 30, 2015, and may not be representative of actual rates in those later periods.

Total interest expense which includes interest for the variable rate Notes and interest rate swap agreements, as further discussed in Note 10, was \$1,816,302 for fiscal year 2015. No interest was capitalized for fiscal year 2015.

Note 10—Derivative instruments

In 2001 and in 2006, the Research Foundation entered into interest rate swap agreements to limit the effect of changes in interest rates on its variable rate debt (see Note 9). The terms of the swap provide that the Research Foundation pays monthly a fixed rate (see table below) and receive monthly a variable rate equal to 67% of the on-month London Interbank Offer Rate (LIBOR). The effect of the agreements is to set the interest rates at a fixed rate through the term of the swap agreements.

The fair value of the swap agreements are estimated taking into account current interest rates and the credit worthiness of the counterparties.

In conjunction with the 2013 refunding of the 1999 and 2004 bonds and reissuance of Notes (2013 Series) with a new bank, an intercreditor agreement with the counterparty to the swap agreements was entered into.

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

JUNE 30, 2015

Note 10—Derivative instruments (continued)

The fair values and key terms of the Research Foundation's swap agreements at June 30, 2015, are as follows:

Notes	Notional Amount	Effective Date	Maturity Date	Fixed Rate	Estimated Fair Value
Series 2013-A	\$ 4,600,000	06/01/01	12/01/19	4.560%	\$ (439,472)
Series 2013-B	18,455,000	04/01/06	08/01/16	3.623%	(704,065)
Series 2013-C	405,000	04/01/06	08/01/15	5.270%	(3,542)
Series 2013-D	9,775,000	04/01/06	08/01/16	5.356%	(544,565)
	<u>\$ 33,235,000</u>				<u>\$ (1,691,644)</u>

As interest rates have continued to decline since the Research Foundation entered into the swap agreements, the swap agreements have a negative fair value as of June 30, 2015 and as such, are presented as a non-current liability in the accompanying Statement of Net Position. The reported fair values are calculated using the marked-to-market method by an independent third party.

Credit Risk – Because the swaps have a negative fair value, the Research Foundation is exposed to the credit risk of Bank of America, NA in the amount of the swap's fair value. Bank of America has ratings of A-1 (long-term) and P-1 (short-term) by Moody's Investors Services, and A (long-term) and A-1 (short-term) by Standard & Poor's.

Basis Risk – The Research Foundation is exposed to basis risk because the variable rate payments are calculated on the basis of a 67% of LIBOR (a taxable rate index) and the Research Foundation's variable rate interest obligations on the notes is determined in the tax-exempt market. Should the relationship between LIBOR and the tax-exempt market change and move to converge, or should the notes trade at levels worse (higher in rate) in relation to the tax-exempt market, the Research Foundation's all-in costs would increase.

Termination Risk – The swaps do not contain any out-of-the-ordinary termination events that would expose the Research Foundation to significant termination risk.

Total interest expense as disclosed in Note 9 includes interest under terms of the swap agreements of \$1,399,093 for fiscal year 2015.

The following is a schedule of expected future interest payments required under the swap agreements as of June 30, 2015:

Year	Amount
2016	\$ 1,362,686
2017	246,892
2018	108,300
2019	64,600
2020	19,000

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

JUNE 30, 2015

Note 11—Lease revenue

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, 2015:

Buildings, at cost	\$ 52,877,656
Lease origination costs, net	8,210
Accumulated depreciation	<u>(16,799,223)</u>
Net investments in assets subject to operating leases	<u>\$ 36,086,643</u>

Depreciation expense related to the buildings leased to other parties was \$2,150,841 for fiscal year 2015.

Future minimum lease payments expected to be received under noncancelable operating leases as of June 30, 2015, are as follows:

<u>Year</u>	<u>Total Amount</u>	<u>Related Party</u>
2016	\$ 8,034,741	\$ 6,779,793
2017	7,713,584	6,761,041
2018	6,849,266	5,920,196
2019	6,158,314	5,612,814
2020	5,721,241	5,585,295

Note 12—Related-party transactions

The Research Foundation leases a building to the University under a master lease agreement through 2036 or the expiration of the long-term debt, if earlier (see Note 9). Operating leases for other research laboratories and office space, which expire through fiscal year 2023, are also in effect with various departments of the University. Total rent revenues from the University were \$6,433,339 for fiscal year 2015.

On behalf of the University, the Research Foundation invoices intellectual property licensees for reimbursement of patent costs due the University. Total amounts invoiced of \$575,731 in fiscal year 2015 are not reflected in the accompanying Statement of Revenues, Expenses and Changes in Net Position. In fiscal year 2015, the Research Foundation paid \$723,408 to the University for patent costs recovered from intellectual property receipts. Outstanding receivables from licensees for reimbursement of patent costs, and payables to the University for accrued costs are included in the due to University of South Florida payable in the Statement of Net Position.

On behalf of the University, the Research Foundation manages the fiscal operations and services of the USF Tampa Bay Technology Incubator Program. During fiscal year 2015, the Research Foundation received \$700,000 from the University for fiscal year 2015 support of the Incubator program.

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

JUNE 30, 2015

Note 12—Related-party transactions (continued)

In accordance with agreements, the Research Foundation has custodial responsibilities to process sponsor invoicing and related expenditures for certain non-clinical contracts and grants on behalf of the University. Expenditures processed through the Research Foundation in fiscal year 2015 totaled \$734,798, of which \$536,364 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. The Research Foundation recognized administrative fee revenue under these agreements of \$40,665 in fiscal year 2015. The non-clinical outstanding receivable balance due from sponsors and custodial fund balances are included in the due to University payable.

By agreement, the Research Foundation has custodial responsibility of the proceeds from the sales of Graphicstudio artwork and disbursement of Graphicstudio's expenditures. In fiscal year 2015, \$975,793 of cash receipts and \$1,209,377 of disbursements were processed through the Research Foundation. These amounts are not reflected in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. In fiscal year 2015, the Research Foundation received \$84,426 in administrative fees for these services. The custodial cash balance at June 30, 2015 of \$522,090 is included in the due to University of South Florida payable in the statement of net position.

Under agreements with the University, the Research Foundation was engaged in fiscal year 2015 to manage renovations of research facilities to support University research and an expanded incubator program within the Research Park. For these services, the Research Foundation received management fees of \$34,725.

Research funds held on behalf of University faculty, department and colleges that will be utilized to support their research and education activities in the amount of \$4,115,946 as of June 30, 2015, are included in the due to University of South Florida payable in the Statement of Net Position. The Research Foundation distributes royalties from intellectual property net revenue to inventors' departments and to college research funds. The Research Foundation recognized royalty distribution expenses of \$191,665 and \$60,746, respectively, of which \$187,147 and \$59,118 were paid to the departments and colleges of the University during fiscal year 2015.

All personnel of the Research Foundation are employees of the University and as such, employee benefits and compensated absences are accounted for on the University's books. The University tracks, administers, and reports all payroll and fringe benefit costs. On a monthly basis, the Research Foundation reimburses the University for these costs. For fiscal year 2015, salary and fringe benefit costs were \$1,209,330.

As discussed further in Note 7, the Research Foundation executed loans to companies that were part of the Seed Capital Accelerator Program. The President of the Research Foundation is the co-founder and member of the Board for two companies that each received a loan of \$50,000 as part of the program during fiscal year 2014. These loans remain outstanding at June 30, 2015.

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

YEAR ENDED JUNE 30, 2015

	<u>Program</u>	<u>Operating</u>	<u>Total</u>
Depreciation Expense	\$ 2,807,219	\$ 360	\$ 2,807,579
Utilities	1,559,717	-	1,559,717
Repairs and Maintenance	1,012,009	21,037	1,033,046
Salary and Wages	447,623	477,224	924,847
Royalty Expense	681,510	-	681,510
Insurance	319,521	14,127	333,648
Fringe Benefits	145,272	156,939	302,211
Technology Costs	157,319	-	157,319
Materials and Supplies	125,716	12,820	138,536
Amortization Expense	115,912	-	115,912
Professional Fees	40,154	71,738	111,892
Bad Debt Expense	76,768	-	76,768
Provision for Seed Capital Notes	75,000	-	75,000
Sales Tax	34,406	-	34,406
Real Estate Tax	27,017	-	27,017
Telephone	15,866	10,994	26,860
Travel	18,881	1,775	20,656
Participant Stipends and Tuition	19,421	-	19,421
Lease Commissions	12,767	-	12,767
Independent Contractors	3,180	4,640	7,820
Subscriptions and Memberships	3,105	2,735	5,840
Printing Costs	3,608	1,141	4,749
Postage & Freight	282	2,571	2,853
Advertising	2,599	-	2,599
Bank Fees	2,291	192	2,483
Residual Balance Closeout and Fees	1,515	-	1,515
Total Functional Expenses	<u>\$ 7,708,678</u>	<u>\$ 778,293</u>	<u>\$ 8,486,971</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 of
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 University of South Florida Research Foundation, Inc. (the "Research Foundation"), as of and for the year ended June 30, 2015, 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 September 25, 2015.

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") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Research Foundation's internal control. 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. 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 may exist that have not been identified.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink that reads "Cherry Bekant LLP". The signature is written in a cursive, flowing style.

Tampa, Florida
September 25, 2015