

**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, 2016*

*And Reports of Independent Auditor*

**UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.**

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## Report of Independent Auditor

To the Board of Directors 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, 2016, 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, 2016, 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 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2016, 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.



Tampa, Florida  
October 11, 2016

# UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEAR ENDED JUNE 30, 2016

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### 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, 2016, 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 \$495 thousand (.5%) to \$93.0 million at June 30, 2016, from \$92.5 million at June 30, 2015. Total liabilities for the Research Foundation decreased \$1.0 million (2.4%) to \$41.4 million as of June 30, 2016. As a result of the above, and corresponding excess of revenues over expenses as described below, the Research Foundation's net position increased by \$320 thousand (.6%), reaching a year-end balance of \$52.0 million.

The Research Foundation's operating revenues were \$12.7 million for an increase of \$795 thousand (6.7%) from the prior fiscal year. Fiscal year 2016 operating expenses were \$9.7 million for an increase of \$1.2 million (14.0%) from fiscal year 2015.

Operating income for fiscal year 2016 was \$3.0 million, for a decrease of \$390 thousand (11.4%) 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, 2016

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

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current assets	\$ 38,651,050	\$ 34,111,161
Restricted cash and cash equivalents	1,229,167	1,133,334
Capital assets, net	44,926,264	48,509,698
Other investments	305,171	419,148
Other non-current assets	<u>7,852,025</u>	<u>8,295,685</u>
Total Assets	<u>92,963,677</u>	<u>92,469,026</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Interest rate swap	<u>497,068</u>	<u>1,691,644</u>
<b>LIABILITIES</b>		
Current	11,221,640	9,211,716
Non-current	<u>30,217,068</u>	<u>33,246,644</u>
Total Liabilities	<u>41,438,708</u>	<u>42,458,360</u>
<b>NET POSITION</b>		
Net Investment in capital assets	14,600,431	16,408,032
Unrestricted	<u>37,421,606</u>	<u>35,294,278</u>
Total Net Position	<u>\$ 52,022,037</u>	<u>\$ 51,702,310</u>

The Research Foundation's total assets increased \$495 thousand (.5%) to \$93.0 million at June 30, 2016 from \$92.5 million at Jun 30, 2015.

Current assets increased \$4.5 million (13.3%) to \$38.7 million at June 30, 2016. The increase in current assets includes an increase in cash of \$941 thousand (41.5%), an increase in investments of \$3.3 million (10.6%), \$306 thousand increase (48.8%) in accounts receivable, offset by \$17 thousand (24.6%) decrease in other current assets. The net increase in investments of \$3.3 million resulted from additional investments of \$3.6 million from operating funds, less a loss on investments of \$290 thousand in fiscal year 2016.

Capital assets decreased \$3.6 million (7.4%) from \$48.5 million at June 30, 2015 to \$44.9 million at June 30, 2016. The decrease resulted from depreciation charges of \$2.8 million, transferring ownership of \$986 thousand book value of research equipment to the University, and recording the disposition of \$270 thousand book value of research equipment whose ownership was transferred from the Research Foundation to Hillsborough County ("the County") with the early termination of a research and development grant agreement that had been executed with the County. Capital asset additions of \$516 thousand in fiscal year 2016 accounts for the remaining activity.

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

*YEAR ENDED JUNE 30, 2016*

Other investments decreased \$114 thousand (27.2%), caused by \$169 thousand negative adjustment to the fair value of the investments from decreased market values at June 30, 2016 to June 30, 2015, less \$55 thousand fair value of equity investments received in fiscal year 2016. Other non-current assets of \$7.9 million decreased by \$444 thousand (5.3%) principally due to annual amortization of developer rights of \$116 thousand and writing off a \$344 thousand balance of deferred straight line rent associated with a lease settlement of a Research Park tenant that was reached in fiscal year 2016.

Total liabilities decreased \$1.0 million (2.4%) to \$41.4 million at June 30, 2016, which includes an increase of \$2.0 million (21.8%) in current liabilities and a \$3.0 million (9.1%) decrease in non-current liabilities. The current liability for the due to University of South Florida payable increased \$2.1 million at June 30, 2016, as a result of additional custodial funds received in fiscal year 2016. The \$3.0 million decrease in non-current liabilities includes \$1.8 million reduction in long-term notes payable (5.8%) and \$1.2 million decrease (70.6%) in the fair value of the interest rate swap agreements as a result of the debt payments.

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 and debt. The second category is unrestricted net position which 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 \$320 thousand. The increase in total net position includes a decrease in net investment in capital assets of \$1.8 million (11.0%), and an increase in unrestricted net position of \$2.1 million (6.0%).

**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 2016 and 2015 fiscal years ended June 30:

	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 12,696,158	\$ 11,900,783
Operating expenses	<u>9,672,191</u>	<u>8,486,971</u>
Operating income	3,023,967	3,413,812
Net non-operating revenues (expenses)	<u>(2,704,240)</u>	<u>(797,947)</u>
Increase in net position	319,727	2,615,865
Net position, beginning of year	<u>51,702,310</u>	<u>49,086,445</u>
Net position, end of year	<u>\$ 52,022,037</u>	<u>\$ 51,702,310</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, 2016

The following summarizes the operating revenues by source that were used to fund operating activities during the 2016 and 2015 fiscal years ended June 30:

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Property rental revenues	\$ 7,534,055	\$ 7,485,069	\$ 48,986	0.7%
Royalties, licenses and option fees	2,199,916	2,121,169	78,747	3.7%
Incubator sponsor revenue	1,788,700	1,100,000	688,700	62.6%
Incubator program revenue	511,467	536,973	(25,506)	-4.7%
Other license fees	307,000	307,000	-	0.0%
Contracts and grants	185,018	69,629	115,389	165.7%
Administrative fees	170,002	161,096	8,906	5.5%
Economic development support	-	119,847	(119,847)	-100.0%
<b>Total Operating Revenues</b>	<b><u>\$ 12,696,158</u></b>	<b><u>\$ 11,900,783</u></b>	<b><u>\$ 795,375</u></b>	<b>6.7%</b>

The Research Foundation's operating revenues totaled \$12.7 million for fiscal year 2016 with an increase of \$795 thousand (6.7%) from the prior fiscal year.

Property rental revenues were \$7.5 million in fiscal year 2016. Overall, property rents were consistent with the previous year with an increase of \$49 thousand (.7%) over fiscal year 2015 rents.

Intellectual property revenue from royalties, licenses and option fees increased \$79 thousand (3.7%) to \$2.2 million in fiscal year 2016. The Research Foundation, acting as an agent for the University, also invoiced intellectual property licensees for reimbursement of patent costs in the amount of \$598 thousand in fiscal year 2016, which is an increase of 3.8% from \$576 invoiced in fiscal year 2015. The invoiced amounts for patent costs are not reflected in the Research Foundation's operating revenues.

Total revenue from the Incubator Program increased \$663 thousand (40.5%) due to an increase in sponsor support of \$689 thousand (62.6%) less \$26 thousand decrease (4.7%) in incubator program revenues. The increase in sponsor support was due to timing of additional support for the program from the University of \$700 thousand, offset by a \$20 thousand reduction from the County due to change in contract terms as to when invoices can be submitted. The Incubator Program also generated an additional \$8 thousand in other sponsor support for the annual B.E.A.T event (Building Entrepreneurship Around Tampa) which showcases start-ups and educational programming.

The Research Foundation continues to pursue post-award management of private industry contracts and grants with the University. Operating revenue of contracts and grants correlates to an operating expense entitled the same, with each reporting an increase of \$115 thousand (165.7%) in fiscal year 2016 from increased expenditure activity. These line items represent only those contracts and grants where the Research Foundation is the contracting party. Other contracts and grants of which the University is the contracting party, have been eliminated and are reported by the University.

Administrative fees of \$170 thousand were earned in fiscal year 2016 representing an overall increase of \$9 thousand (5.5%) from \$161 thousand in fiscal year 2015. Administrative fees for processing grants increased \$33 thousand (79.0%) offset by a decrease of \$13 thousand (39.0%) in fees from managing property renovation projects, and \$11 thousand decrease (13.0%) in fees earned by processing Graphicstudio expenditures on behalf of the University.

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

YEAR ENDED JUNE 30, 2016

The Bioscience Research and Development Grant with the County that generated Economic Support revenue concluded in fiscal year 2015, thereby accounting for the fiscal year 2016 decrease of \$120 thousand. The grant 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 thereto.

**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 2016 and 2015 fiscal years ended June 30:

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Property rental expenses	\$ 5,007,044	\$ 4,728,336	\$ 278,708	5.9%
Inventor royalties	827,584	356,305	471,279	132.3%
Inventing department and other royalties	615,609	325,205	290,404	89.3%
Other intellectual property costs	184,634	229,587	(44,953)	-19.6%
Incubator program expenses	1,750,925	1,842,534	(91,609)	-5.0%
Contracts and grants	185,018	69,629	115,389	165.7%
University support	76,963	82,082	(5,119)	-6.2%
Seed capital expense	102,500	75,000	27,500	36.7%
Management and general	921,914	778,293	143,621	18.5%
Total Operating Expenses	<u>\$ 9,672,191</u>	<u>\$ 8,486,971</u>	<u>\$ 1,185,220</u>	14.0%

The Research Foundation's operating expenses totaled \$9.7 million for fiscal year 2016, increasing \$1.2 million (14.0%) over the prior fiscal year \$8.5 million.

Property rental expenses were \$5.0 million in fiscal year 2016, with an increase of \$279 thousand (5.9%) from fiscal year 2015 expenses of \$4.7 million. The fiscal year 2016 increase in expenses is primarily attributed to repairs and maintenance increase of \$252 thousand (26.0%), an increase in depreciation expense of \$35 thousand (1.3%), offset by reduced insurance expense of \$39 thousand (12.3%) for the Research Park properties. The repairs and maintenance included \$205 thousand anticipated expenses that had been budgeted for the buildings, and \$47 thousand unforeseen costs for ground stabilization on Research Park undeveloped property.

Intellectual property royalties to inventors, University research funds and other parties, collectively increased \$762 thousand (111.8%) to \$1.4 million in fiscal year 2016. Fiscal year 2016 royalty expense includes \$828 thousand to inventors, \$565 thousand to University research funds for benefit of faculty, departments and colleges, and \$50 thousand to other parties. Total royalties, as a percent to Intellectual property operating revenues, was 66% in fiscal year 2016 increasing from 32% in fiscal year 2015.

Other intellectual property costs decreased 19.6% from \$230 thousand in fiscal year 2015 to \$185 thousand in fiscal year 2016. These expenses include \$108 thousand of patent costs recovered from intellectual property fees, \$57 thousand of legal costs expended for license protection, and \$20 thousand reserve for potential bad debt.

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

YEAR ENDED JUNE 30, 2016

Operating expenses for the Incubator program decreased \$92 thousand (5.0%) in fiscal year 2016. Reduced expenses include a decrease in rent expense of \$84 thousand realized from increased occupancy by other non-incubator tenants, thus reducing the overall cost of space to the program. Sales tax expense also decreased \$30 thousand in fiscal year 2016, with the tax on rents and fees being collected from the Incubator tenants and affiliates beginning in September 2015, in lieu of the Research Foundation paying that expense on their behalf. Other expenses collectively increased \$22 thousand.

Seed capital expense was recorded at 50% of loans funded through the seed capital accelerator program. The expense represents the estimated reserve for the net realizable value of the loans, based on the conversion features associated with the notes. In fiscal years 2016 and 2015, \$205 thousand and \$150 thousand of loans were disbursed, respectively.

Management and general costs were \$922 thousand in fiscal year 2016, with an increase of \$144 thousand (18.5%) from fiscal year 2015 expenses of \$778 thousand. The fiscal year 2016 increase is primarily attributed to increased personnel costs (wages and fringe) of \$114 thousand as a result of being fully staffed, an increase in fees for internal audit of \$15 thousand, with the balance attributed to other 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 2016 and 2015 fiscal years:

	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>% Change</u>
Non-Operating Revenues				
(Expenses):				
Investment income (loss)	\$ (374,051)	\$ 998,463	\$ (1,372,514)	-137.5%
Interest income	19,518	19,892	(374)	-1.9%
Interest expense	(1,718,965)	(1,816,302)	97,337	-5.4%
Other non-operating loss	(630,742)	-	(630,742)	-100.0%
Total Non-Operating Revenues (Expenses)	<u>\$ (2,704,240)</u>	<u>\$ (797,947)</u>	<u>\$ (1,906,293)</u>	238.9%

Non-operating investment loss of \$374 thousand in fiscal year 2016 includes realized gain for reinvested dividends and interest of \$1.1 million, less an unrealized loss of \$1.5 million associated with decreases in market values. The significant change in investment income was due to an overall decrease in general market returns in fiscal year 2016 compared to 2015.

Other non-operating income (loss) was recognized in fiscal year 2016 to record a one-time payment from a lease settlement that was reached with a Research Park tenant to accept early termination. Non-operating loss also includes the expense to write-off the remaining deferred rent holiday provided by the lease. The early exit of this tenant and corresponding early termination of a research and development grant that had been executed with Hillsborough County, specific to this tenant, required the Research Foundation to transfer the ownership of certain equipment to the County. The loss to write off the book value of the equipment has been recorded as non-operating. Ownership of the remaining equipment that had been funded by the grant was conveyed by the County to the Research Foundation for use by the University to foster economic development and research activity on the Tampa campus. Following this action, the equipment was donated by the Research Foundation to the University. The loss to write off the book value of the equipment has been recorded as non-operating.

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

YEAR ENDED JUNE 30, 2016

**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 2016 and 2015 fiscal years:

	<u>2016</u>	<u>2015</u>
<b>Cash provided (used) by:</b>		
Operating activities	\$ 7,766,529	\$ 6,026,533
Capital and related financing activities	(4,101,291)	(4,403,349)
Investing activities	<u>(2,628,299)</u>	<u>(490,333)</u>
Net increase in cash and cash equivalents	1,036,939	1,132,851
Cash and cash equivalents, at beginning of year	<u>3,402,947</u>	<u>2,270,086</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,439,886</u></u>	<u><u>\$ 3,402,937</u></u>

Fiscal year 2016 generated a positive cash flow from operations of \$7,766,529. This represents an increase of \$1,739,996 from fiscal year 2015. Included in the calculation of net cash provided by operating activities are cash receipts, which increased \$1,434,685 to \$13,184,320, reduced by cash disbursements of \$5,417,791, which decreased \$305,311 in fiscal year 2016.

Net cash used by capital and financing activities consists principally of purchases and construction of capital assets of \$516 thousand, \$1.7 million payment of debt, payment of debt associated interest costs of \$1.7 million and seed capital loans of \$175 thousand.

Net cash used for investing activities includes additional investments of \$3.6 million, less receipt of \$971 thousand of non-operating income.

# UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEAR ENDED JUNE 30, 2016

### Capital Assets and Debt Administration

#### Capital Assets

At June 30, 2016, the Research Foundation had \$66.5 million in capital assets, less accumulated depreciation of \$21.6 million, for net capital assets of \$44.9 million. Depreciation expense totaled \$2.8 million for the fiscal years ended June 30, 2016 and 2015, respectively.

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

	<u>2016</u>	<u>2015</u>
Land	\$ 8,739,633	\$ 8,739,633
Construction in process	38,285	334,415
Buildings, net	35,071,429	36,626,757
Equipment, net	1,076,917	2,808,893
Total capital assets, net	<u>\$ 44,926,264</u>	<u>\$ 48,509,698</u>

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

#### Debt Administration

As of June 30, 2016, the Research Foundation had \$31.6 million in outstanding debt representing a decrease of \$1.6 million, or 5.1%, from the prior fiscal year balance of \$33.2 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 2016. Additionally, the private sector tenants continue to demonstrate positive job creation, collaboration with University faculty, and real world internship opportunities for students.

Leases for existing structures and ground lease transactions within the Research Park are a significant source of revenue for the Research Foundation. As a result of leasing activities and property renovations, current occupancy of approximately 93% is expected to generate additional revenue in future years. Further growth is dependent on marketing efforts and market conditions. Continued development of the Research Park as a hub for biotechnology, life sciences research and entrepreneurship, and expansion of the Incubator program remain as primary goals.

Strategic master planning with the Research Park as the epicenter of an Innovation District is underway. The vision is for a vibrant, engaging mixed-use community which will enhance the dynamic biotechnology cluster by continuing to position scientists and entrepreneurs side-by-side to develop innovations and advancements that succeed in both the laboratory and in the marketplace.

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

*YEAR ENDED JUNE 30, 2016*

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The Research Foundation's economic outlook is also related to continuing growth of intellectual royalty and licensing fees. These income sources are expected to increase in fiscal year 2017. Revenue from administrative fees, to meet operational overhead costs, is earned through the University's placement of private industry contracts and grants to the Research Foundation for post award management.

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, 2016*

**ASSETS**

Current Assets:

Cash and cash equivalents	\$ 3,210,719
Investments	34,454,162
Accounts receivable, net	933,644
Other current assets	52,525

Total Current Assets	38,651,050
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Non-Current Assets:

Restricted cash and cash equivalents	1,229,167
Capital assets, net	44,926,264
Developer rights to Research Park, net	7,456,978
Other investments	305,171
Non-current receivables	38,047
Notes receivables, net	357,000

Total Non-Current Assets	54,312,627
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<b>Total Assets</b>	<b>92,963,677</b>
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**DEFERRED OUTFLOWS OF RESOURCES**

Interest rate swap	497,068
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**LIABILITIES**

Current Liabilities:

Accounts payable and accrued liabilities	1,309,181
Due to University of South Florida	7,849,109
Current portion of note payable	1,835,000
Unearned revenues	228,350

Total Current Liabilities	11,221,640
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Non-Current Liabilities:

Note payable, less current portion	29,720,000
Derivative investment - interest rate swap liability	497,068

Total Non-Current Liabilities	30,217,068
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<b>Total Liabilities</b>	<b>41,438,708</b>
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**NET POSITION**

Net investment in capital assets	14,600,431
Unrestricted	37,421,606

<b>Total Net Position</b>	<b>\$ 52,022,037</b>
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**UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

*YEAR ENDED JUNE 30, 2016*

Operating Revenues:	
Property rental revenues	\$ 7,534,055
Royalties, licenses, and option fees	2,506,916
Incubator sponsor revenue	1,788,700
Incubator program revenue	511,467
Contracts and grants	185,018
Administrative fees	170,002
	<u>12,696,158</u>
Total Operating Revenues	
Operating Expenses:	
Property rental expenses	5,007,044
Inventor royalties	827,584
Inventing department and other royalties	615,609
Other intellectual property costs	184,634
Incubator program expenses	1,750,925
Contracts and grants	185,018
University support	76,963
Seed capital expense	102,500
Management and general	921,914
	<u>9,672,191</u>
Total Operating Expenses	
Operating Income	
Non-Operating Revenues (Expenses):	
Investment income (loss)	(374,051)
Interest income	19,518
Interest expense	(1,718,965)
Other non-operating income (loss)	(630,742)
	<u>(2,704,240)</u>
Total Non-Operating Revenues (Expenses)	
Increase in net position	319,727
Total net position, beginning of year	<u>51,702,310</u>
Total net position, end of year	<u><u>\$ 52,022,037</u></u>

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

YEAR ENDED JUNE 30, 2016

<b>Cash flows from operating activities:</b>	
Property rental receipts	\$ 7,641,770
Royalties, licenses, and option fees	2,009,166
Contract and grant receipts	1,121,319
Administrative fee receipts	170,002
Incubator program and sponsor receipts	<u>2,242,063</u>
Total Receipts	13,184,320
Property rental disbursements	(2,037,312)
Intellectual property disbursements	(1,239,244)
Contract and grant disbursements	(273,545)
Incubator program disbursements	(1,750,925)
University support, management and general	<u>(116,765)</u>
Net cash provided by operating activities	<u>7,766,529</u>
<b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets	(515,623)
Principal payments on long term debt	(1,680,000)
Interest paid on notes and swap liabilities	(1,730,668)
Issuance of notes receivable	(205,000)
Repayment of note receivable	<u>30,000</u>
Net cash used in capital and related financing activities	<u>(4,101,291)</u>
<b>Cash flows from investing activities:</b>	
Investment income	2,719
Other	968,982
Purchase of investments	<u>(3,600,000)</u>
Net cash used in investing activities	<u>(2,628,299)</u>
Net increase in cash and cash equivalents	1,036,939
Cash and cash equivalents, beginning of year	<u>3,402,947</u>
Cash and cash equivalents, end of year	<u><u>4,439,886</u></u>
Cash and cash equivalents:	
Unrestricted	3,210,719
Restricted	<u>1,229,167</u>
	<u>\$ 4,439,886</u>

(continued)

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

*YEAR ENDED JUNE 30, 2016*

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

Operating income	\$ 3,023,967
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	2,959,273
Accounts receivable provision for bad debts	23,251
Notes receivable provision for net realizable value	102,500
Change in assets and liabilities:	
Accounts receivable and other receivables	(303,228)
Other current assets	17,112
Accounts payable and accrued liabilities	(135,441)
Due to University of South Florida	2,095,485
Unearned revenue	(16,390)
Net cash provided by operating activities	<u>\$ 7,766,529</u>

**Supplemental Disclosure of Noncash Investing Activities**

Net unrealized loss on investments	<u>\$ (374,051)</u>
Non cash items related to nonoperating loss	<u>\$ 1,599,723</u>

# UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### 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 Technology Transfer Office/ 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, 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. 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. Patent costs recovered by the Research Foundation are repaid to the University.

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. As further discussed in Note 14, CAUSF Office, LLC was dissolved subsequent to June 30, 2016.

# UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### 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.

*Change in Accounting Principle* – On March 2, 2015, the Governmental Accounting Standards Board (GASB) released Statement No. 72, Fair Value Measurement and Application, which would generally require entities to measure investments at fair value. GASB's goal is to enhance comparability of governmental financial statements by requiring fair value measurement for certain assets and liabilities using a consistent definition and accepted valuation techniques. This standard expands fair value disclosures to provide comprehensive information for financial statement users about the impact of fair value measurements on an entity's financial position. The Research Foundation implemented GASB No. 72 in the fiscal year ending June 30, 2016 (see Note 3).

*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. 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 Seed Capital Accelerator Program (see Note 7) and are recorded at net realizable value. The Research Foundation's policy is to record a provision equaling 50% of the outstanding note balance, 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 acquisition value at the date of the donation. Buildings are depreciated on a straight-line basis using estimated useful lives generally ranging from 30 to 39.5 years. Consistent with University policy, depreciation of research buildings is based on componentization over the estimated useful life of its components which range from 15-40 years. Equipment is depreciated on a straight-line basis over estimated useful lives ranging from 5 to 20 years.

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

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

*JUNE 30, 2016*

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**Note 2—Summary of significant accounting policies (continued)**

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, 2016.

*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, 2016 through October 11, 2016, the date the financial statements were available for issuance. See note 14 for further discussion of subsequent events.

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

JUNE 30, 2016

**Note 3—Investments and other investments**

At June 30, 2016, the Research Foundation has the following investments and maturities:

	Fair Market Value	Years			
		Less Than 1	1-5	6-10	More Than 10
Money Market Accounts	\$ 4,189,706	\$ 4,189,706	\$ -	\$ -	\$ -
Short-Term Bond Index Funds	5,342,308	16,027	5,315,597	10,684	-
Bonds	1,269,348	77,450	482,871	250,863	458,164
Equity Securities	2,494,265	No Maturity			
Mutual Funds	1,562,161	No Maturity			
Partnership Accounts	150,000	No Maturity			
Pooled Investments:					
Money Market Funds	117,570	117,570			
Bond Mutual Funds	2,803,766	-	-	2,803,766	-
Partnership Funds	3,656,623	No Maturity			
Equity Mutual Funds	13,173,586	13,173,586	-	-	-
	<u>\$ 34,759,333</u>	<u>\$ 17,574,339</u>	<u>\$ 5,798,468</u>	<u>\$ 3,065,313</u>	<u>\$ 458,164</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. There were no unfunded commitments related to the program as of June 30, 2016.

*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 five 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, 2016

**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, 2016, the book balances of deposits was \$4,439,886 and the bank balances was \$5,155,127. 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, or First Tier consistent with SEC rule 2a-7 if not rated and being no load funds. Eligible investments for long-term funds authorize pooled funds which are professionally managed and registered with the Securities and Exchange Commission, and invested in various indexed and actively managed funds. The Research Foundation’s investment policy provides for credit rate risk. The risk varies depending on the type of investment.

At June 30, 2016, the Research Foundation has the following debt instrument quality ratings:

	<b>Fair Market Value</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>Less than A rated</b>	<b>Not rated</b>
Prime Money Market	\$ 3,913,450	\$ 4,189,706	\$ -	\$ -	\$ -	\$ -
Money Market Accounts	393,826	-	-	-	-	393,826
Short-Term Bond Index	5,342,308	53,423	710,527	2,350,616	2,227,742	-
Bonds	1,269,348	442,082	169,365	228,861	156,341	272,699
Mutual Funds	1,562,161	-	-	-	-	1,562,161
Bond Mutual Funds	2,803,766	276,602	88,173	268,308	1,117,524	1,053,159
	<u>\$ 15,284,859</u>	<u>\$ 4,961,813</u>	<u>\$ 968,065</u>	<u>\$ 2,847,785</u>	<u>\$ 3,501,607</u>	<u>\$ 3,281,845</u>

Debt instruments whose quality is not rated includes \$1,222,144 of US Government/Agency, \$12,642 of not rated short-term investments, \$393,826 of not rated money market funds, and \$1,653,233 otherwise not rated securities.

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

JUNE 30, 2016

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**Note 3—Investments and other investments (continued)**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

JUNE 30, 2016

**Note 3—Investments and other investments (continued)**

Interest Rate Swaps - Valued using third party models that incorporate observable market conditions and therefore are considered Level 3.

The methods 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, 2016.

	Total Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<b>Investments by Fair Value Level</b>				
Money Market Accounts	\$ 4,189,706	\$ 4,189,706	\$ -	\$ -
Short-Term Corporate Bond Index Funds	5,342,308	5,342,308	-	-
Bonds	1,269,348	-	1,269,348	-
Equity Securities	2,494,265	2,494,265	-	-
Mutual Funds	1,562,161	1,562,161	-	-
Partnership Accounts	150,000	-	-	150,000
<b>Total Investments by Fair Value Level</b>	<b>15,007,788</b>	<b>\$ 13,588,440</b>	<b>\$ 1,269,348</b>	<b>\$ 150,000</b>
<b>Investments Measured at Net Asset Value (NAV)</b>				
Pooled Investments	19,751,545			
<b>Total Investments Measured at NAV</b>	<b>19,751,545</b>			
<b>Total Investments</b>	<b>\$ 34,759,333</b>			
<b>Investment Derivative Instruments</b>				
Interest Rate Swap Agreements	\$ 497,068			\$ 497,068
<b>Total Investment Derivative Instruments</b>	<b>\$ 497,068</b>			<b>\$ 497,068</b>

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

JUNE 30, 2016

**Note 4—Accounts receivable**

Accounts receivable consist of the following at June 30, 2016:

Royalty and license fees	\$ 1,120,594
Property leases	30,034
Incubator leases	62,779
Other receivables	9,931
Allowance for doubtful accounts	(289,694)
	<u>\$ 933,644</u>

**Note 5—Capital assets**

Capital assets consist of the following at June 30, 2016:

	<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	334,415	38,285	(334,415)	38,285
Total capital assets not being depreciated	<u>9,074,048</u>	<u>38,285</u>	<u>(334,415)</u>	<u>8,777,918</u>
Capital assets being depreciated:				
Buildings	53,599,755	755,753	-	54,355,508
Equipment	5,784,029	56,000	(2,484,212)	3,355,817
Total capital assets being depreciated	<u>59,383,784</u>	<u>811,753</u>	<u>(2,484,212)</u>	<u>57,711,325</u>
Less accumulated depreciation for:				
Buildings	(16,972,998)	(2,311,081)		(19,284,079)
Equipment	(2,975,136)	(532,281)	1,228,517	(2,278,900)
Total accumulated depreciation	<u>(19,948,134)</u>	<u>(2,843,362)</u>	<u>1,228,517</u>	<u>(21,562,979)</u>
Total capital assets being depreciated, net	<u>39,435,650</u>	<u>(2,031,609)</u>	<u>(1,255,695)</u>	<u>36,148,346</u>
Total capital assets, net	<u>\$ 48,509,698</u>	<u>\$ (1,993,324)</u>	<u>\$ (1,590,110)</u>	<u>\$ 44,926,264</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 \$927,292. 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 \$115,911 for fiscal year 2016.

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

JUNE 30, 2016

**Note 7—Notes receivable seed capital accelerator program**

In September 2013, the Board of Directors of the Research Foundation approved the establishment of the Seed Capital Accelerator Committee to assist the Board of Directors in fulfilling responsibilities regarding the venture investment fund which had previously been established by the Board of Directors in 1996.

An initial allocation of \$100,000 plus 25% of annual long-term investment income forms the financial basis of the venture investment fund. As investment losses were realized during fiscal year 2016, there was no allocation to the fund during the year. The balance allocated to the venture investment fund is \$3,193,139 at June 30, 2016.

The purpose of the venture investment fund had been to assist faculty in development and business activities in which the Research Foundation may participate in future revenues generated from the commercialization of the projects. The Seed Capital Accelerator Program (Program) has been designed to support new and existing Tampa Bay Technology Incubator affiliated start-up companies that have been 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 2016, total funding of \$775,000 to eighteen companies has occurred, with one loan being repaid. The notes are recorded at net realizable value of \$357,000 and classified as noncurrent on the Statement of Net Position.

The following is a schedule of maturities:

<u>Year</u>	<u>Amount</u>
2017	\$ -
2018	-
2019	389,500
2020	150,000
2021	205,000
Total notes receivable	744,500
Less allowance for uncollectable	(387,500)
	<u>\$ 357,000</u>

**Note 8—Accounts payable and accrued liabilities**

Accounts payable and accrued liabilities consist of the following at June 30, 2016:

Vendors payable	\$ 172,283
Interest payable	102,731
Inventor royalties payable	697,986
Other royalties payable	7,635
Escrow payable	226,578
Other payables	101,968
	<u>\$ 1,309,181</u>

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

JUNE 30, 2016

**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 has 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 1.448401% at June 30, 2016. Principal is payable annually. The Note matures December 1, 2019 and is secured by lease assignments in addition to the USF Foundation guarantee.

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 1.358401% at June 30, 2016. Annual principal payments commenced 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 included an interest rate of One-Month LIBOR, to be payable monthly with principal payable annually. The Note matured August 1, 2015.

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 1.625% at June 30, 2016. Principal is payable annually. The Note matures August 1, 2034 and is secured by lease assignments.

	<u>June 30, 2015</u>	<u>Increases</u>	<u>Reductions</u>	<u>June 30, 2016</u>	<u>Amounts Due Within One Year</u>
Notes Payable					
2013-A	\$ 4,600,000	\$ -	\$ (800,000)	\$ 3,800,000	\$ 900,000
2013-B	18,455,000	-	(225,000)	18,230,000	665,000
2013-C	405,000	-	(405,000)	-	-
2013-D	9,775,000	-	(250,000)	9,525,000	270,000
Total Notes Payable	<u>\$ 33,235,000</u>	<u>\$ -</u>	<u>\$ (1,680,000)</u>	<u>\$ 31,555,000</u>	<u>\$ 1,835,000</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, 2016.

At June 30, 2016, \$1,229,167 of funds is 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.

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

JUNE 30, 2016

**Note 9—Long-term debt (continued)**

The following is a schedule of maturities and interest expense:

Year	Maturities	Interest
2017	\$ 1,835,000	\$ 684,444
2018	1,875,000	518,859
2019	2,025,000	446,603
2020	2,070,000	388,617
2021	1,120,000	330,065
2022 - 2026	6,450,000	1,392,326
2027 - 2031	8,140,000	844,011
2032 - 2035	8,040,000	192,808
	\$ 31,555,000	\$ 4,797,733

Future obligations of interest expense are based on variable rates in effect as of June 30, 2016, 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 \$1,718,965 for fiscal year 2016. No interest was capitalized for fiscal year 2016.

As further discussed in Note 14, certain debt was restructured and paid off subsequent to June 30, 2016.

**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 agreements provide that the Research Foundation pays monthly a fixed rate (see table below) and receive monthly a variable rate equal to 67% of the one-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.

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.

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

The fair values and key terms of the Research Foundation's swap agreements at June 30, 2016, are as follows:

Notes	Notional Amount	Effective Date	Maturity Date	Fixed Rate	Estimated Fair Value
Series 2013-A	\$ 3,800,000	06/01/01	12/01/19	4.560%	\$ (318,675)
Series 2013-B	18,230,000	04/01/06	08/01/16	3.623%	(100,689)
Series 2013-D	9,525,000	04/01/06	08/01/16	5.356%	(77,704)
	\$ 31,555,000				\$ (497,068)

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

JUNE 30, 2016

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**Note 10—Derivative instruments (continued)**

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, 2016 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 \$1,283,031 for fiscal year 2016.

The following is a schedule of expected future interest payments required under the swap agreements as of June 30, 2016:

<u>Year</u>	<u>Amount</u>
2017	\$ 246,893
2018	108,300
2019	64,600
2020	19,000

**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, 2016:

Buildings, at cost	\$ 53,633,409
Accumulated depreciation	(19,052,586)
Net investments in assets subject to operating leases	<u>\$ 34,580,823</u>

Depreciation expense related to the buildings leased to other parties was \$2,253,363 for fiscal year 2016.

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

*JUNE 30, 2016*

**Note 11—Lease revenue (continued)**

Future minimum lease payments expected to be received under noncancelable operating leases as of June 30, 2016, are as follows:

Year	Total Amount	Related Party
2017	\$ 7,580,371	\$ 6,698,849
2018	7,323,709	6,723,208
2019	7,102,962	6,568,128
2020	7,114,702	6,567,194
2021	7,027,743	6,600,927

**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 \$6,552,620 for fiscal year 2016.

On behalf of the University, the Research Foundation invoices intellectual property licensees for reimbursement of patent costs due the University. Total amounts invoiced of \$597,887 in fiscal year 2016 are not reflected in the accompanying Statement of Revenues, Expenses and Changes in Net Position. In fiscal year 2016, the Research Foundation paid \$583,980 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 2016, the Research Foundation received \$700,000 from the University for fiscal year 2016 support of the Incubator program.

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 2016 totaled \$1,085,291, of which \$683,839 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 \$50,250 in fiscal year 2016. 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 2016, \$823,142 of cash receipts and \$1,119,825 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 2016, the Research Foundation received \$73,739 in administrative fees for these services. The custodial cash balance at June 30, 2016 of \$225,407 is included in the due to University of South Florida payable in the statement of net position.

# UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### **Note 12—Related-party transactions (continued)**

Under agreements with the University, the Research Foundation was engaged in fiscal year 2016 to manage renovations of research facilities to support University research within the Research Park. For these services, the Research Foundation received management fees of \$4,029.

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 \$4,007,371 as of June 30, 2016, 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 research funds for inventors' departments and to colleges. The Research Foundation recognized royalty distribution expenses of \$389,437 and \$175,974, respectively, of which \$316,682 and \$98,138 were distributed to the departments and colleges of the University during fiscal year 2016.

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. On a monthly basis, the Research Foundation reimburses the University for these costs. For fiscal year 2016, salary and fringe benefit costs were \$1,298,306.

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, 2016.

### **Note 13—Nonoperating other income (loss)**

Other non-operating income (loss) of \$630,742 includes a one-time payment from a lease settlement that was reached in fiscal year 2016 with a Research Park tenant to accept early termination. In conjunction therewith, the remaining deferred rent associated with an initial rent holiday provided by the lease was expensed.

The early exit of this tenant and corresponding early termination of a research and development grant agreement that had been executed with Hillsborough County (County), specific to this tenant, required the Research Foundation to transfer the ownership of certain research equipment to the County. The loss incurred due to the write off of the equipment book value has been recorded as non-operating. Ownership of the remaining research equipment that had been funded by the Grant was conveyed by the County to the Research Foundation for continued use by the University to foster economic development and research activity on the Tampa campus. Following this action, the equipment was donated by the Research Foundation to the University.

### **Note 14—Subsequent events**

On July 29, 2016, the Research Foundation paid off the Series 2013-D Note in the amount of \$9,525,000. Redemption of investment funds provided the source of payment. As a result of the debt payoff, CAUSF Office LLC, which was established in 2004 as a financing vehicle for construction of the building associated with this debt, was dissolved on August 1, 2016.

On August 1, 2016, the Research Foundation restructured the Series 2013-B Note to include an amendment to the loan agreement, credit agreement and promissory note 2013-B. The debt converted from a tax-exempt variable rate note with a pay fixed interest rate swap, to a taxable 10-year fixed rate note at 3.18% interest rate. The existing amortization scheduled through 2034 was not changed. The interest rate swap which expired August 1, 2016 was not replaced.

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

YEAR ENDED JUNE 30, 2016

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Depreciation Expense	\$ 2,843,001	\$ 361	\$ 2,843,362
Utilities	1,542,193	-	1,542,193
Royalty Expense	1,443,194	-	1,443,194
Repairs and Maintenance	1,270,869	24,462	1,295,331
Salary and Wages	490,684	561,987	1,052,671
Fringe Benefits	135,435	173,838	309,273
Insurance	280,168	11,943	292,111
Materials and Supplies	187,894	26,935	214,829
Technology Costs	164,160	-	164,160
Bad Debt Expense	125,751	-	125,751
Amortization Expense	115,911	-	115,911
Professional Fees	16,368	83,469	99,837
Residual Balance Closeout and Fees	39,773	-	39,773
Telephone	16,989	11,198	28,187
Independent Contractors	4,225	16,533	20,758
Real Estate Tax	20,607	-	20,607
Subscriptions and Memberships	8,696	5,007	13,703
Travel	11,010	978	11,988
Lease Commissions	8,210	-	8,210
Bank Fees	7,449	588	8,037
Advertising	6,361	-	6,361
Participant Stipends and Tuition	4,985	-	4,985
Sales Tax	4,334	-	4,334
Printing Costs	2,010	2,098	4,108
Postage & Freight	-	2,517	2,517
Total Operating Expenses	<u>\$ 8,750,277</u>	<u>\$ 921,914</u>	<u>\$ 9,672,191</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, 2016, 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 11, 2016.

**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  
October 11, 2016