

**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, 2021

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)	3-8
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	9
Statement of Revenues, Expenses, and Changes in Net Position.....	10
Statement of Cash Flows.....	11-12
Statement of Fiduciary Net Position	13
Statement of Changes in Fiduciary Net Position	14
Notes to the Financial Statements.....	15-28
SUPPLEMENTAL SCHEDULE	
Schedule of Functional Expenses	29
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>	30-31

Report of Independent Auditor

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate remaining fund information of the University of South Florida Research Foundation, Inc. (the “Research Foundation”), a component unit of the University of South Florida, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Research Foundation’s basic financial statements, as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and aggregate remaining fund information of the Research Foundation, as of June 30, 2021, and the respective 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2021, on our consideration of the Research Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Research Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Research Foundation's internal control over financial reporting and compliance.

Cherry Bekant LLP

Tampa, Florida
October 13, 2021

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEAR ENDED JUNE 30, 2021

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, 2021, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of the Research Foundation's management.

Financial Highlights

The Research Foundation's total assets were \$129.1 million at June 30, 2021. This balance reflects an increase of \$32.5 million (33.7%) from total assets of \$96.6 million at June 30, 2020. Total liabilities increased \$6.6 million (24.7%) to \$33.2 million at June 30, 2021 from total liabilities at June 30, 2020. The Research Foundation's net position increased by \$25.9 million (37.1%), reaching a year-end balance of \$95.9 million.

Operating revenues were \$20.3 million in fiscal year 2021 for an increase of \$7.4 million (57.5%) from \$12.9 million for the prior fiscal year. Operating expenses of \$10.2 million in fiscal year 2021 decreased slightly by \$138 thousand (1.3%) from fiscal year 2020. Operating income in fiscal year 2021 increased \$7.6 million (295.3%) to \$10.1 million from the prior fiscal year amount of \$2.5 million.

Net nonoperating revenue of nonoperating expenses were \$15.8 million in fiscal year 2021, for an increase of \$14.9 million (1709.4%) from fiscal year 2020 net nonoperating revenue of \$900 thousand. For fiscal year 2021, the increase in net position was \$25.9 million, for an increase of \$22.5 million (655.2%) from fiscal year 2020 increase in net position of \$3.4 million.

Overview of Financial Statements

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

The statement of net position reflects the assets and liabilities of the Research Foundation, using the accrual basis of accounting, and presents the financial position of the Research Foundation at a specified time. The difference between total assets, less total liabilities is net position. The net position is an indicator of the Research Foundation's financial health.

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

The statement of cash flows provides information in the form of cash inflows and outflows summarized by operating, capital and related financing activities, and investing activities. This statement will assist in evaluating the Research Foundation's ability to generate net cash flows and its ability to meet its financial obligations as they come due.

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

YEAR ENDED JUNE 30, 2021

Condensed Statements of Net Position

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

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets	\$ 77,492,540	\$ 44,452,893
Restricted cash	670,833	645,833
Capital assets, net	40,930,703	41,080,273
Other noncurrent assets	10,022,879	10,384,874
Total Assets	<u>129,116,955</u>	<u>96,563,873</u>
LIABILITIES		
Current	16,662,973	9,019,203
Noncurrent	16,561,755	17,618,496
Total Liabilities	<u>33,224,728</u>	<u>26,637,699</u>
NET POSITION		
Net investment in capital assets	23,983,040	23,071,893
Restricted	15,389,003	2,513,917
Unrestricted	56,520,184	44,340,364
Total Net Position	<u>\$ 95,892,227</u>	<u>\$ 69,926,174</u>

Total current assets were \$77.5 million at June 30, 2021 for an increase of \$33.0 million (74.3%) from total current assets of \$44.5 million at June 30, 2020. \$20.2 million of the increase in total current assets is attributed to recording the fair value of equity securities acquired pursuant to intellectual property license agreements in fiscal year 2021. Investments also increased \$9.5 million (22.4%) in fiscal year 2021 to \$52.2 million from \$42.7 million at June 30, 2020. Operating cash increased \$3.1 million at June 30, 2021.

The net increase in investments of \$9.5 million at June 30, 2021 resulted from investment gains of \$11.3 million, less redemptions of \$1.8 million to fund the base rent (interest expense) and annual principal payment as required by the master lease for the new Research Park building construction project.

Net capital assets of \$40.9 million at June 30, 2021 decreased slightly from \$41.1 million at June 30, 2020. The net decrease resulted from fiscal year 2021 depreciation charges of \$2.7 million offset by capital asset additions of \$500 thousand and \$2.0 million expended for various construction in process projects for a total of \$2.5 million.

Total liabilities increased \$6.6 million (24.7%) to \$33.2 million at June 30, 2021 from June 30, 2020, with current liabilities increasing \$7.6 million (84.7%) offset by \$1.0 million decrease (6.0%) in noncurrent liabilities. The current liability for amounts due to the University of South Florida ("due to USF") increased by a net amount of \$7.3 million (120.2%) to \$13.3 million at June 30, 2021. The current liability of due to USF includes a payable of \$7.4 million that is associated with the fair value of equity securities acquired pursuant to intellectual property license agreements based on their fair value at June 30, 2021.

Scheduled principal payment on note payable and capital lease obligation payments account for the decrease in noncurrent liabilities of \$1.0 million at June 30, 2021.

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

YEAR ENDED JUNE 30, 2021

Condensed Statements of Revenues, Expenses, and Changes in Net Position

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

	<u>2021</u>	<u>2020</u>
Operating revenues	\$ 20,355,140	\$ 12,924,054
Operating expenses	<u>10,222,996</u>	<u>10,360,875</u>
Operating income	10,132,144	2,563,179
Net nonoperating revenues	<u>15,833,909</u>	<u>875,073</u>
Increase in net position	25,966,053	3,438,252
Net position, beginning of year	<u>69,926,174</u>	<u>66,487,922</u>
Net position, end of year	<u>\$ 95,892,227</u>	<u>\$ 69,926,174</u>

Operating Revenues

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

	<u>2021</u>	<u>2020</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Royalties, licenses, and option fees	\$ 2,560,553	\$ 2,666,071	\$ (105,518)	-4.0%
License fees - IP equity transactions	7,432,733	-	7,432,733	100.0%
Other license fees	<u>243,918</u>	<u>307,000</u>	<u>(63,082)</u>	-20.5%
	10,237,204	2,973,071	7,264,133	244.3%
Property rental revenues	9,667,127	9,361,958	305,169	3.3%
Contracts and grants	286,911	418,677	(131,766)	-31.5%
Administrative fees	<u>163,898</u>	<u>170,348</u>	<u>(6,450)</u>	-3.8%
Total Operating Revenues	<u>\$ 20,355,140</u>	<u>\$ 12,924,054</u>	<u>\$ 7,431,086</u>	57.5%

Operating revenues from royalties, licenses and option fees collectively increased \$7.3 million (244.3%) in fiscal year 2021. License fees of \$7.4 million attributed to non-cash equity transactions which originated from intellectual property license agreements executed in prior fiscal years 2016 and 2019, were recorded in fiscal year 2021. Other royalties, licenses, and option fees for intellectual property decreased \$100 thousand (4.0%) in fiscal year 2021 from fiscal year 2020.

Property rental revenues were \$9.7 million in fiscal year 2021 for an increase of \$305 thousand (3.3%) from the prior fiscal year. The increase in Research Park rent revenues was principally due to annual escalations.

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

YEAR ENDED JUNE 30, 2021

Operating Expenses

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

	<u>2021</u>	<u>2020</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Property rental expenses	\$ 7,220,574	\$ 7,164,108	\$ 56,466	0.8%
Inventor royalties	1,098,827	1,109,457	(10,630)	-1.0%
Inventing department and other royalties	593,251	592,223	1,028	0.2%
Intellectual property costs	143,948	124,399	19,549	15.7%
Seed capital expense	87,050	(30,500)	117,550	-385.4%
Contracts and grants	286,911	418,677	(131,766)	-31.5%
University support	-	86,485	(86,485)	-100.0%
Management and general	792,435	896,026	(103,591)	-11.6%
Total Operating Expenses	<u>\$ 10,222,996</u>	<u>\$ 10,360,875</u>	<u>\$ (137,879)</u>	-1.3%

Property rental expenses which remained consistent with the prior fiscal year at \$7.2 million, include Research Park operating expenses as well as costs associated with the operating lease of other office space.

Total intellectual property costs of \$1.8 million in fiscal year 2021 were consistent with \$1.8 million for fiscal year 2020. Intellectual property costs in fiscal year 2021 include royalties of \$1.1 million to inventors, \$545 thousand of royalties to University departments and colleges to support their research and education activities, other royalties of \$48 thousand, and other direct technology costs of \$144 thousand.

In fiscal year 2021, an additional expense to reserve for unlikely collection of the Seed Capital notes and interest receivables was recorded to reduce the estimated net realizable value of the notes and interest receivable, given consideration of conversion features associated with the note and specific review of the start-up company's ability to pay. Based on repayment activity in fiscal year 2021, the debt reserve was increased \$87 thousand.

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

YEAR ENDED JUNE 30, 2021

Nonoperating Revenues and Expenses

Certain revenue sources including investment income are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the Research Foundation's nonoperating revenues and expenses for the 2021 and 2020 fiscal years:

	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>% Change</u>
Nonoperating Revenues (Expenses):				
Investment income	\$ 17,373,197	\$ 1,917,072	\$ 15,456,125	806.2%
Interest income	8,063	17,781	(9,718)	-54.7%
Interest expense	<u>(1,547,351)</u>	<u>(1,059,780)</u>	<u>(487,571)</u>	46.0%
Total Net Nonoperating Revenues	<u>\$ 15,833,909</u>	<u>\$ 875,073</u>	<u>\$ 14,958,836</u>	1709.4%

Nonoperating investment income of \$17.4 million increased \$15.5 million (806.2%) in fiscal year 2021. In addition to increased market performance of the investment portfolio in fiscal year 2021 over the prior fiscal year 2020, the current year increase includes \$5.5 million unrealized gain to record an increase in fair value as of June 30, 2021, of the \$20.2 million equity securities acquired pursuant to intellectual property license agreements. As further disclosed in the notes to the financial statements, the price per share of this equity holding has significantly declined subsequent to June 30, 2021.

Nonoperating interest expense of \$1.5 million in fiscal year 2021 increased \$488 thousand (46.0%) from the prior fiscal year. Interest costs of \$927 thousand were incurred in fiscal year 2021, an increase of \$526 thousand from fiscal year 2020, for debt commitments associated with construction of a mixed use laboratory and office building project that is located in the USF Research Park. This commitment began mid-year of fiscal year 2020, thus accounting for the additional interest expense in fiscal year 2021.

Condensed Statements of Cash Flows

The following summarizes cash flows for the 2021 and 2020 fiscal years:

	<u>2021</u>	<u>2020</u>
Cash flows from:		
Operating activities	\$ 5,573,858	\$ 3,535,406
Capital and related financing activities	(5,070,765)	(6,592,382)
Investing activities	<u>2,599,578</u>	<u>(1,168,563)</u>
Net increase (decrease) in cash and cash equivalents	3,102,671	(4,225,539)
Cash and cash equivalents, beginning of year	<u>645,833</u>	<u>4,871,372</u>
Cash and cash equivalents, end of year	<u>\$ 3,748,504</u>	<u>\$ 645,833</u>

Fiscal year 2021 generated positive cash flow from operations of \$5.6 million, for an increase of \$2.0 million (57.7%) from fiscal year 2020 operating activities. A decrease of \$3.0 million in disbursements for operating activities offset by \$1.0 million decrease in receipts from operating activities, account for the net increase of \$2.0 million. During fiscal year 2021, the net cash flow from operating activities of \$5.6 million and \$2.6 million cash flows from investing activities were used as the source of funding \$5.1 million capital and financing activities, with a net increase of \$3.1 million in cash at June 30, 2021.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEAR ENDED JUNE 30, 2021

Capital Assets

At June 30, 2021, the Research Foundation had \$75.9 million in capital assets, less accumulated depreciation of \$35.0 million, for net capital assets of \$40.9 million. Depreciation expense totaled \$2.7 million and \$2.8 million for the fiscal years ended June 30, 2021 and 2020, respectively.

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

	<u>2021</u>	<u>2020</u>
Land	\$ 8,739,633	\$ 8,739,633
Construction in process	2,432,313	395,464
Buildings, net	29,463,622	31,732,396
Equipment, net	295,135	212,780
Total capital assets, net	<u>\$ 40,930,703</u>	<u>\$ 41,080,273</u>

Debt Administration

At June 30, 2021, the Research Foundation had \$17.6 million in outstanding debt representing a decrease of \$1.1 million (5.6%) from the prior fiscal year balance of \$18.7 million. As further disclosed in the notes to the financial statements, debt commitments for construction of a mixed use laboratory and office building project to be located in the USF Research Park were entered into in fiscal year 2020.

Economic Factors That Will Affect the Future

The Research Park is finding success with its mission of creating an environment that fosters collaboration and innovation as evidenced by the number of academic research facilities on site alongside the many private sector facilities from nascent start-ups to the publicly traded. The private sector tenants continue to demonstrate positive job creation, collaboration with University faculty, licensing of university intellectual property, and real world internship opportunities for students.

Leases for existing structures and ground lease transactions within the Research Park are a significant source of revenue for the Research Foundation. Occupancy within the Research Park is at near capacity. While there is ongoing risk of lease terminations, there continues to be encouraging interest in available space. Further growth is dependent on marketing efforts and market conditions, as we work on opportunities for constructing new facilities.

COVID-19 is a global pandemic, which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant declines and volatility in the financial markets. The coronavirus outbreak and government responses are creating disruption to global supply chains and adversely impacting many industries. The outbreak could have a material, adverse impact on economic and market conditions and trigger a period of global economic shutdown. Although it is not possible to reliably estimate the length and severity of this outbreak, financial impacts could occur that are unknown at this time.

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, 2021

ASSETS

Current Assets:

Cash	\$ 3,077,671
Investments	52,191,397
Accounts receivable, net	1,737,490
Notes receivable, net	51,250
Other current assets	202,445
Other investments	20,232,287
Total Current Assets	77,492,540

Noncurrent Assets:

Restricted cash	670,833
Capital assets, net	40,930,703
Developer rights to Research Park, net	6,877,419
Other investments	610,451
Noncurrent receivables	2,342
Notes receivables, net	18,750
Reserve for debt service	2,513,917
Total Noncurrent Assets	51,624,415

Total Assets

129,116,955

LIABILITIES

Current Liabilities:

Accounts payable and accrued liabilities	2,142,557
Due to University of South Florida	13,330,608
Current portion of notes payable	805,000
Current portion of capital lease obligation	251,741
Unearned revenues	133,067
Total Current Liabilities	16,662,973

Noncurrent Liabilities:

Notes payable, less current portion	13,830,000
Capital lease obligation, less current portion	2,731,755
Total Noncurrent Liabilities	16,561,755

Total Liabilities

33,224,728

NET POSITION

Net investment in capital assets	23,983,040
Restricted	15,389,003
Unrestricted	56,520,184
Total Net Position	\$ 95,892,227

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

YEAR ENDED JUNE 30, 2021

Operating Revenues:	
Property rental revenues	\$ 9,667,127
Royalties, licenses, and option fees	10,237,204
Contracts and grants	286,911
Administrative fees	163,898
Total Operating Revenues	<u>20,355,140</u>
Operating Expenses:	
Property rental expenses	7,220,574
Inventor royalties	1,098,827
Inventing department and other royalties	593,251
Intellectual property costs	143,948
Contracts and grants	286,911
Seed capital expense	87,050
Management and general	792,435
Total Operating Expenses	<u>10,222,996</u>
Operating Income	<u>10,132,144</u>
Nonoperating Revenue (Expense):	
Investment income	17,373,197
Interest income	8,063
Interest expense	(1,547,351)
Total Net Nonoperating Revenue	<u>15,833,909</u>
Increase in net position	25,966,053
Total net position, beginning of year	<u>69,926,174</u>
Total net position, end of year	<u><u>\$ 95,892,227</u></u>

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

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

YEAR ENDED JUNE 30, 2021

Cash flows from operating activities:

Property rental receipts	\$ 9,549,781
Royalties, licenses, and option fees	2,409,488
Contract and grant receipts	45,136
Administrative fee receipts	163,898
Total Receipts	<u>12,168,303</u>
Property rental disbursements	(4,358,106)
Intellectual property disbursements	(1,275,728)
Contract and grant disbursements	(265,286)
Management and general	(695,325)
Total Disbursements	<u>(6,594,445)</u>
Net cash flows from operating activities	<u>5,573,858</u>

Cash flows from capital and related financing activities:

Acquisition of capital assets	(2,520,648)
Collection of note receivable	35,003
Principal payment on note payable	(775,000)
Capital lease payments	(260,716)
Interest paid on notes and capital lease obligation	(1,549,404)
Net cash flows from capital and related financing activities	<u>(5,070,765)</u>

Cash flows from investing activities:

Purchase of investments	(106,238)
Sale of investments	2,207,774
Investment income	498,042
Net cash flows from investing activities	<u>2,599,578</u>

Net increase in cash	3,102,671
Cash, beginning of year	645,833
Cash, end of year	<u>\$ 3,748,504</u>

Cash:

Unrestricted	\$ 3,077,671
Restricted	670,833
	<u>\$ 3,748,504</u>

(continued)

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

YEAR ENDED JUNE 30, 2021

(continued)	<u>2021</u>
Reconciliation of net operating revenues (expenses) to net cash flows from operating activities:	
Operating income	\$ 10,132,144
Adjustments to reconcile net operating revenues (expenses) to net cash flows from operating activities:	
Depreciation and amortization expense	2,786,130
Accounts receivable provision for bad debts	31,503
Notes and interest receivable provision for net realizable value	87,050
Other investments	(7,432,733)
Change in assets and liabilities:	
Accounts receivable and other receivables	(311,351)
Other current assets	29,245
Accounts payable and accrued liabilities	491,357
Due to University of South Florida	(80,061)
Unearned revenue	(159,426)
Net cash flows from operating activities	<u>\$ 5,573,858</u>
Supplemental disclosure of noncash operating activities:	
Intellectual property equity transactions:	
Fair value of other investments received	\$ 20,299,410
Amount Due to University of South Florida for investments received	(7,424,324)
Intellectual property noncash license revenue	(7,365,610)
Unrealized gain on investments received	(5,509,476)
	<u>\$ -</u>
Supplemental disclosure of noncash investing activities:	
Net unrealized gain on investments	<u>\$ 11,310,891</u>

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

JUNE 30, 2021

	Custodial Funds
ASSETS	
Cash	\$ 1,581,374
Receivables	199,023
Total Assets	<u>1,780,397</u>
LIABILITIES	
Accounts payable	<u>4,783</u>
Total Liabilities	<u>4,783</u>
NET POSITION	
Restricted for USF Incubator Program	1,100,063
Restricted for USF Institute for Advanced Discovery & Innovation	260,643
Restricted for USF Economic Development	269,625
Restricted for Graphicstudio	145,283
Total Net Position	<u><u>\$ 1,775,614</u></u>

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

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

YEAR ENDED JUNE 30, 2021

	Custodial Funds
Additions:	
Incubator program revenue	\$ 787,592
Incubator program sponsor support	510,000
Graphicstudio revenue	497,177
Total Additions	<u>1,794,769</u>
Deductions:	
Transfer cash to University	2,062,629
Program expenditures	390,966
Graphicstudio expenditures	528,480
Administrative fees	116,730
Total Deductions	<u>3,098,805</u>
Net decrease in fiduciary net position	(1,304,036)
Net position, beginning of year	<u>3,079,650</u>
Net position, end of year	<u><u>\$ 1,775,614</u></u>

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 1—Organization

Nature of Entity – The University of South Florida Research Foundation, Inc. (the “Research Foundation”) was established to promote, encourage, and enhance the research activities of University of South Florida faculty, staff, and students. The Research Foundation provides a mechanism for the funding of licensed research and development activities at the University of South Florida (the “University”). The Research Foundation is a Direct Support Organization (“DSO”) of the University as provided for under Section 1004.28, Florida Statutes.

The Research Foundation owns and manages real property assets that include the USF Research Park and various buildings located on the property. Activities within the USF Research Park generate revenue primarily through long-term leases of facilities utilized by the University research enterprise and private sector entities seeking research relationships with the University.

The Research Foundation provides a broad and flexible financial mechanism to administer private research contracts and grants, including corporate and private foundation-sponsored programs. The Research Foundation assists the University in the commercialization of University inventions including license agreements and receipt and distribution of royalties related to intellectual property. The Research Foundation works in cooperation with the University’s Technology Transfer Office (“TTO”) in obtaining the rights to patents and copyrights for these properties, and licensing them to commercial enterprises. Revenues generated from the commercialization of intellectual property include license fees, options-to-license fees, and royalties. Net revenues from the commercialization of the intellectual property are shared on a percentage basis among the inventors, a research fund in the department where the inventor is employed, a research fund for the college, and the Research Foundation. Net proceeds from Research Foundation activities are used to further research and other endeavors at the University.

TTO 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, TTO obtains patents and copyrights and assumes all costs, to include attorneys’ fees and patent application fees. All rights are retained by the University. The rights, title, and interest in and to the intellectual property are then licensed by the University to the Research Foundation. Patent costs recovered by the Research Foundation are repaid to the University.

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

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

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 2—Summary of significant accounting policies

Basis of Presentation – The financial statements of the Research Foundation conform to accounting principles generally accepted in the United States of America (“U.S. GAAP”) as prescribed by GASB. The Research Foundation’s financial statements are presented in the form of an enterprise fund and a fiduciary custodial fund.

Custodial funds are used to account for assets held by or as an agent for the benefit of other organizations outside the reporting entity, to include the University. Custodial funds are custodial in nature and do not involve measurement of results of operations. The assets and liabilities for custodial funds are presented on the statement of fiduciary net position and additions and deductions on the statement of changes in fiduciary net position. Custodial funds include the USF Tampa Bay Technology Incubator, USF Economic Development, USF Institute for Advanced Discovery & Innovation, USF Veterans Reintegration Office, and Graphicstudio.

Net Position Classifications – Net position is classified and displayed in three components:

Net Investment In Capital Assets – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position – Consists of net position with constraints placed on the use either by (1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation.

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

Basis of Accounting – The financial statements of the Research Foundation have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. The Research Foundation’s custodial funds are presented in the fund financial statements. By definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the Research Foundation. Accordingly, these funds are not incorporated into the Research Foundation’s statements.

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

Investments – Investments in money market accounts, short-term bond index funds, equity securities, mutual funds, partnership accounts, and pooled accounts are recorded at fair value, as determined by quoted market prices. All investment income of the Research Foundation, including changes in the fair value of investments, is reported under nonoperating revenues in the statement of revenues, expenses, and changes in net position.

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

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

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 2—Summary of significant accounting policies (continued)

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 an initial provision for 50% of the outstanding note balance, and increase the allowance when collection appears unlikely for the estimated net realizable value, given consideration of conversion features associated with the note and specific review of the start-up company.

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

Restricted Cash – Cash whose use is restricted for debt service is segregated on the statement of net position.

Capital Assets – Purchased capital assets are recorded at cost. Donated capital assets are recorded at acquisition value at the date of the donation. Buildings are depreciated on a straight-line basis using estimated useful lives generally ranging from 30 to 39.5 years. Consistent with University policy, depreciation of research buildings is based on componentization over the estimated useful life of its components which range from 15 to 40 years. Equipment is depreciated on a straight-line basis over estimated useful lives ranging from 5 to 20 years.

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

Deferred Outflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an expense until that time.

Income Taxes – The Research Foundation has been recognized by the Internal Revenue Service as a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code and Chapter 220.13 of the Florida Statutes.

Revenue Recognition – Revenues associated with the license of intellectual properties are recognized in accordance with timing stipulated in license agreements and when determinable 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 U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

JUNE 30, 2021

Note 2—Summary of significant accounting policies (continued)

Subsequent Events – The Research Foundation evaluated all events and transactions that occurred from July 1, 2021 through October 13, 2021, the date the financial statements were available for issuance. See Note 16.

Note 3—Investments and other investments

At June 30, 2021, the Research Foundation has the following investments and maturities:

	Fair Market Value	Less Than 1	Years		More Than 10
			1-5	6-10	
Money market accounts	\$ 3,816,112	\$ 3,816,112	\$ -	\$ -	\$ -
Short-term corporate bond index funds	2,673,150	33,682	2,556,868	82,600	-
Bonds	1,468,940	48,747	598,489	250,920	570,784
Equity securities	22,186,497	No Maturity	-	-	-
Mutual funds	5,662,919	No Maturity	-	-	-
Partnership accounts	449,999	No Maturity	-	-	-
Pooled investments:					
Fixed Income	7,142,142	38,373	7,103,769	-	-
Equity mutual funds	23,057,879	23,057,879	-	-	-
Real assets	3,299,162	No Maturity	-	-	-
Alternative assets	3,277,335	No Maturity	-	-	-
	<u>\$ 73,034,135</u>	<u>\$ 26,994,793</u>	<u>\$ 10,259,126</u>	<u>\$ 333,520</u>	<u>\$ 570,784</u>

Pooled investments represent the Research Foundation’s interest in the University of South Florida Foundation’s Agency Investment Program (the “Program”). The Program consists of an agency investment fund (the “Fund”) which includes USF Foundation funds as well as funds invested by the Research Foundation and other University DSOs. No specific investments are assigned to the Research Foundation, rather the value of the Research Foundation’s investment is equal to the total fund net asset value times the Research Foundation’s units as a percentage of total units outstanding. The primary long-term investment strategy of the Program is to preserve the intergenerational equity of endowed gifts while providing a consistent source of funding for the University. The investment strategy is to earn a total rate of return that exceeds the spending rate, plus long-term inflation, plus the costs of managing the investment fund.

The Program pays a monthly dividend based on the results of the Fund. Such dividends can either be withdrawn or reinvested. In addition, with 60-days’ notice, the Research Foundation may withdraw either a portion of or its entire investment in the Program; however, the Research Foundation is limited to one withdrawal, other than any monthly dividend, per calendar year. There were no unfunded commitments related to the Program as of June 30, 2021.

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

JUNE 30, 2021

Note 3—Investments and other investments (continued)

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 5% of the market value of its investment portfolio. Direct investments in securities of the U.S. government, government agencies, and State of Florida Investment Pools or Pooled Funds comprised solely of U.S. government securities are not subject to these restrictions.

Custodial Credit Risk – Custodial credit risk is the risk of loss attributed to the magnitude of the Research Foundation’s investments held by outside parties. At June 30, 2021, the book balances of cash funds were \$5,329,878 and the bank balances were \$5,684,849. The Research Foundation’s bank balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Research Foundation from time to time may have amounts in excess of insured limits. At June 30, 2021, the Research Foundation had bank balances of \$5,434,849 in excess of these insured limits.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Research Foundation has responded to this risk and has an investment in a short-term bond index fund. Overall, the Research Foundation limits the fixed income portfolio (United States Treasury securities, United States government agency obligations, mortgage-backed securities, corporate debt, and state and municipal securities investments) to a weighted average duration of less than five years. The Research Foundation’s investment policy provides for interest rate risk. The risk varies depending on the type of investment.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Research Foundation’s investment policy provides that all fixed income security investments at time of purchase, shall be rated in the top three rating classifications as defined by both Moody’s Investors Services and Standard & Poor’s or First Tier consistent with Securities and Exchange Commission (“SEC”) Rule 2a-7 if not rated and being no load funds. Eligible investments for long-term funds authorize pooled funds which are professionally managed and registered with the SEC and invested in various indexed and actively managed funds. The Research Foundation’s investment policy provides for credit rate risk. The risk varies depending on the type of investment.

At June 30, 2021, the Research Foundation has the following debt instrument quality ratings:

	Fair Market Value	AAA	AA	A	Less Than A Rated	Not Rated
Money market accounts	\$ 3,816,112	\$ -	\$ -	\$ -	\$ -	\$ 3,816,112
Short-term bond index	2,673,150	23,791	225,881	1,151,058	1,269,479	2,941
Bonds	1,468,940	545,086	29,948	313,590	286,304	294,012
Mutual funds	5,662,919	-	-	-	-	5,662,919
Fixed income	7,142,142	607,812	127,330	319,278	2,744,856	3,342,866
	<u>\$ 20,763,263</u>	<u>\$ 1,176,689</u>	<u>\$ 383,159</u>	<u>\$ 1,783,926</u>	<u>\$ 4,300,639</u>	<u>\$ 13,118,850</u>

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

JUNE 30, 2021

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 are descriptions of the valuation methodologies used for assets measured at fair value:

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

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

Bonds – Includes corporate obligations and U.S. government/agency bonds that are valued on quoted prices, classified as Level 2.

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

Mutual Funds – Includes Level 1 fixed income and equity mutual funds valued on quoted prices in an active market.

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

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

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

JUNE 30, 2021

Note 3—Investments and other investments (continued)

The methodologies described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Research Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Research Foundation's investments carried at fair value as of June 30, 2021.

	Total Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Money market accounts	\$ 3,816,112	\$ 3,816,112	\$ -	\$ -
Short-term corporate bond index funds	2,673,150	2,673,150	-	-
Bonds	1,468,940	-	1,468,940	-
Equity securities	22,186,497	22,186,497	-	-
Mutual funds	5,662,919	5,662,919	-	-
Partnership accounts	449,999	-	-	449,999
Total investments by fair value level	\$ 36,257,617	\$ 34,338,678	\$ 1,468,940	\$ 449,999
Investments measured at NAV:				
Pooled investments	36,776,518			
Total investments measured at NAV	36,776,518			
Total investments	\$ 73,034,135			

Note 4—Accounts receivable

Non fiduciary accounts receivable consist of the following at June 30, 2021:

Royalty and license fees	\$ 1,777,841
Property leases	31,824
Allowance for doubtful accounts	(72,175)
	<u>\$ 1,737,490</u>

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

JUNE 30, 2021

Note 5—Capital assets

Capital assets consist of the following at June 30, 2021:

	<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	395,464	2,379,813	(342,964)	2,432,313
Total capital assets not being depreciated	<u>9,135,097</u>	<u>2,379,813</u>	<u>(342,964)</u>	<u>11,171,946</u>
Capital assets being depreciated:				
Buildings	60,910,433	322,492	-	61,232,925
Equipment	3,343,244	161,307	-	3,504,551
Total capital assets being depreciated	<u>64,253,677</u>	<u>483,799</u>	<u>-</u>	<u>64,737,476</u>
Less accumulated depreciation for:				
Buildings	(29,178,037)	(2,591,266)	-	(31,769,303)
Equipment	(3,130,464)	(78,952)	-	(3,209,416)
Total accumulated depreciation	<u>(32,308,501)</u>	<u>(2,670,218)</u>	<u>-</u>	<u>(34,978,719)</u>
Total capital assets being depreciated, net	<u>31,945,176</u>	<u>(2,186,419)</u>	<u>-</u>	<u>29,758,757</u>
Total capital assets, net	<u>\$ 41,080,273</u>	<u>\$ 193,394</u>	<u>\$ (342,964)</u>	<u>\$ 40,930,703</u>

Note 6—Developer rights to Research Park

Other noncurrent 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 \$1,506,851. 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 2021.

Note 7—Notes receivable Seed Capital Accelerator Program

The seed capital accelerator committee was approved by the Board of Directors of the Research Foundation (the "Board") in fiscal year 2014, to assist the Board in fulfilling responsibilities regarding the venture investment fund which had been established by the Board in 1996.

The purpose of the venture investment fund had been to assist faculty in development and business activities in which the Research Foundation may participate in future revenues generated from the commercialization of the projects. The Seed Capital Accelerator Program was designed to support new and existing USF Tampa Bay Technology Incubator program affiliated start-up companies that have been formed, based on the licensing of University technologies.

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

JUNE 30, 2021

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

The Seed Capital Accelerator Program provides up to \$50,000 of loan funding to enable start-ups to quickly improve the odds of overcoming immediate obstacles to commercialization that would provide a measurable outcome and return on investment in the near term. The companies execute convertible promissory notes in an aggregate principal amount of up to \$50,000. The maturity date of each note is five years from initial closing date and the interest rate on each note is fixed at an annual rate equal to the Wall Street Journal prime rate plus 3% as of the date of the first advance.

Notes receivable are recorded at net realizable value of \$70,000 as of June 30, 2021, to include current portion of \$51,250 and noncurrent portion of \$18,750. Note maturities are as follows:

<u>Year</u>	<u>Notes</u>		
	<u>Receivable</u>	<u>Reserve</u>	<u>Net</u>
2022	\$ 506,997	\$ (455,747)	\$ 51,250
2023	50,000	(37,500)	12,500
2024	25,000	(18,750)	6,250
	<u>\$ 581,997</u>	<u>\$ (511,997)</u>	<u>\$ 70,000</u>

<u>Year</u>	<u>Interest</u>		
	<u>Receivable</u>	<u>Reserve</u>	<u>Net</u>
2022	\$ 83,605	\$ (76,170)	\$ 7,435
2023	6,401	(4,801)	1,600
2024	2,967	(2,225)	742
	<u>\$ 92,973</u>	<u>\$ (83,196)</u>	<u>\$ 9,777</u>

Note 8—Accounts payable and accrued liabilities

Non fiduciary accounts payable and accrued liabilities consist of the following at June 30, 2021:

Vendors payable	\$ 384,016
Inventor royalties payable	1,331,799
Escrow payable	220,626
Interest payable	38,783
Other payables	167,333
	<u>\$ 2,142,557</u>

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

JUNE 30, 2021

Note 9—Long-term debt

The Research Foundation has an outstanding note from direct borrowings related to business-type activities in the amount of \$14,635,000 at June 30, 2021. The outstanding note from direct borrowings contains an event of default that changes the timing of repayment of outstanding amounts to become immediately due if the Research Foundation is unable to make payment or fails to perform any covenant, condition, or agreement under the master loan or credit agreements.

Construction of the 3720 Spectrum and 3802 Spectrum buildings was financed in 2004 through the issuance of Variable Rate Demand Revenue Bonds Series 2004A, B, and C. In fiscal year 2021 there was no outstanding balance on the 2004B or 2004C bonds.

The note from direct borrowings related to business type activities was issued in 2013 (Series 2013-B) to refund the outstanding Series 2004A Bond. In fiscal year 2017, the Series 2013-B note was amended to a 10-year fixed rate note. The original amortization schedule through 2034 was maintained, with a maturity date of August 1, 2034. Interest at 3.18% fixed rate is payable monthly, with principal payable annually. The note is secured by lease assignments for the 3720 Spectrum building.

The credit agreement includes a liquidity to funded debt ratio covenant requirement whereby liquid assets of cash, restricted cash and equivalents plus investments to indebtedness for money borrowed, not be less than .40 to 1.00.

At June 30, 2021, \$670,833 is on deposit with the bank in a sinking fund account for payment of annual principal payment. This amount has been reported as restricted cash on the statement of net position.

Changes in long-term debt for the year ended June 30, 2021 are as follows:

	<u>June 30, 2020</u>	<u>Increases</u>	<u>Reductions</u>	<u>June 30, 2021</u>	<u>Amount Due Within One Year</u>
Note payable:					
2013-B	\$ 15,410,000	\$ -	\$ (775,000)	\$ 14,635,000	\$ 805,000
Total note payable	<u>\$ 15,410,000</u>	<u>\$ -</u>	<u>\$ (775,000)</u>	<u>\$ 14,635,000</u>	<u>\$ 805,000</u>

The following is a schedule of maturities and interest expense:

<u>Year</u>	<u>Maturities</u>	<u>Interest</u>
2022	\$ 805,000	\$ 441,927
2023	835,000	415,454
2024	870,000	387,881
2025	905,000	359,194
2026	940,000	329,395
2027 - 2031	5,275,000	1,157,984
2032 - 2035	5,005,000	259,713
	<u>\$ 14,635,000</u>	<u>\$ 3,351,548</u>

Future obligations of interest expense are based on the fixed rate in effect as of June 30, 2021, and may not be representative of actual rates in those later periods.

Interest expense for the 2013-B Note was \$473,979 in fiscal year 2021.

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

JUNE 30, 2021

Note 10— Operating lease commitment

Commencing in fiscal year 2019 the Research Foundation entered into a five-year lease commitment of office space. The lease expires in fiscal year 2024.

Future minimum lease payments expected to be paid under the noncancelable operating lease as of June 30, 2021 are as follows:

<u>Year</u>	<u>Amount</u>
2022	\$ 665,080
2023	677,622
2024	113,420
	<u>\$ 1,456,122</u>

Note 11—Capital lease obligation

The Research Foundation entered into a capital lease agreement with another DSO of the University in fiscal year 2019, under which a building will become the property of the Research Foundation when all terms of the lease agreement are met. The capital asset was recorded in the amount of \$3,505,606.

Changes in capital lease obligation for the year ended June 30, 2021 are as follows:

	<u>June 30, 2020</u>	<u>Increases</u>	<u>Reductions</u>	<u>June 30, 2021</u>	<u>Amounts Due Within One Year</u>
Capital lease	<u>\$ 3,244,212</u>	<u>\$ -</u>	<u>\$ (260,716)</u>	<u>\$ 2,983,496</u>	<u>\$ 251,741</u>

The following is a schedule of future minimum lease payments under the capital lease together with the present value of the minimum lease payments as of June 30, 2021:

<u>Year</u>	<u>Amount</u>
2022	\$ 375,969
2023	375,969
2024	375,969
2025	375,969
2026	375,969
2027 - 2028	<u>1,721,774</u>
Total minimum lease payments	3,601,619
Less amount representing interest	<u>(618,123)</u>
Present value of minimum lease payments under capital leases	2,983,496
Less current maturities	<u>(251,741)</u>
Long-term portion	<u>\$ 2,731,755</u>

The building is subleased to a nonrelated party. The above lease commitment will be offset by \$1,535,701 in sublease rental income through the year ending June 30, 2026. Amortization of the leased building is included with depreciation expense. Interest expense for the capital lease obligation was \$146,584 in fiscal year 2021.

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

JUNE 30, 2021

Note 12—Property rental revenues

The Research Foundation leases grounds, office, and laboratory space to customers, primarily in the technology research and development industry, under operating leases. Initial lease terms generally range from 36 to 120 months.

Investments in assets subject to operating leases are as follows at June 30, 2021:

Buildings, at cost	\$ 56,770,784
Accumulated depreciation	<u>(30,436,572)</u>
Net investments in assets subject to operating leases	<u>\$ 26,334,212</u>

Depreciation expense related to the buildings leased to other parties was \$2,542,585 for fiscal year 2021.

Future minimum lease payments expected to be received under noncancelable operating leases as of June 30, 2021 are as follows:

<u>Year</u>	<u>Total Amount</u>	<u>Related Party</u>
2022	\$ 8,661,886	\$ 7,260,597
2023	8,115,742	6,946,788
2024	6,780,921	5,612,948
2025	6,501,261	5,326,389
2026	5,543,172	5,228,992
Thereafter	<u>35,930,313</u>	<u>35,930,313</u>
	<u>\$ 71,533,295</u>	<u>\$ 66,306,027</u>

Note 13—Commitment

In fiscal year 2020, the Research Foundation entered into a credit agreement with another DSO of the University and a bank. Pursuant to the credit agreement, the Research Foundation has committed to provide equity of approximately \$15,000,000 towards the cost of a mixed use laboratory and office project, on or prior to the issuance of a certificate of occupancy. Change orders for project enhancements will be funded from the \$15,000,000 Research Foundation equity commitment.

The project is located in the USF Research Park on real property subleased by Research Foundation to the other DSO under a ground sublease agreement, and will be leased back to the Research Foundation by the other DSO under a master lease agreement. Upon project completion in fiscal year 2022, a capital asset and capital lease obligation will be recorded.

To provide security to the other DSO and the bank, the Research Foundation will assign the leases and lease revenue from the project. Leases and lease revenue from buildings 3650, 3702, and 3802 Spectrum were also assigned to the bank.

In fiscal year 2020, the Research Foundation was required by the credit agreement to fund a debt service reserve fund in the amount of \$1,983,334 to be held by the bank as security for the loan and note executed by the other DSO. In addition thereto, the master lease agreement executed with the other DSO required the Research Foundation to pay \$530,583 debt service coverage factor in fiscal year 2020 to the bank. The combined payments of \$2,513,917 are included as a noncurrent asset in the statement of net position.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 13—Commitment (continued)

Under terms of the master lease agreement, base rent equal to the monthly interest cost commenced in January 2020. In fiscal year 2021, the Research Foundation paid base rent in the amount of \$926,788 which was recorded as interest expense.

Terms of the master lease further require the Research Foundation to pay an escalating annual principal payment which commenced in January 2021. In fiscal year 2022 principal payment in the amount of \$936,408 will be due.

Note 14—Related party transactions

The University leases a building from the Research Foundation, under a master lease agreement through 2036 or the expiration of the long-term debt, if earlier (see Note 9). In addition thereto, other research laboratories and office space are leased to the University under operating leases which expire through fiscal year 2027. Total rent revenues from the University were \$8,341,876 for fiscal year 2021.

The Research Foundation invoices intellectual property licensees for reimbursement of patent costs that are due to the University. Total amounts invoiced in fiscal year 2021 of \$487,939 for patent costs recovery are not reflected in the accompanying statement of revenues, expenses, and changes in net position. Patent costs recovered from intellectual property cash receipts of \$699,048 were remitted by the Research Foundation to the University in fiscal year 2021. A net liability of \$259,257 for accrued patent costs due to the University, less outstanding receivables from licensees for reimbursement of costs, are included in the due to University of South Florida payable in the statement of net position.

In accordance with agreements, the Research Foundation has administrative responsibility for post-award management of certain non-clinical contracts and grants on behalf of the University. Post-award management includes processing sponsor invoicing and related expenditures for those contracts and grants. In fiscal year 2021, the Research Foundation processed \$346,640 of grant expenditures, of which \$231,590 were disbursements made to the University. These contract and grant revenues and expenditures are not reflected in the accompanying statement of revenues, expenses, and changes in net position. When permitted by the agreement, an administrative fee is charged for processing expenditures, and is recognized as administrative fee revenue.

The Research Foundation recognized administrative fee revenue in the amount of \$22,157 for these services in fiscal year 2021. The custodial fund balance for the University grant agreements of \$477,402 is included in the due to University payable in the statement of net position.

By agreement with the University, the Research Foundation has custodial responsibility of proceeds received from sales of Graphicstudio artwork and processes disbursement of Graphicstudio's business expenditures. An administrative fee is charged for processing transactions and is recognized as administrative fee revenue. The Research Foundation recognized administrative fee revenue in the amount of \$43,938 for these services in fiscal year 2021. Graphicstudio's net position of \$145,283 at June 30, 2021 is included in the statement of fiduciary net position.

On behalf of the University, the Research Foundation processes tenant rents and sponsor support for the Tampa Bay Technology Incubator ("TBTI") program. The Research Foundation also processes certain TBTI program expenditures, in addition to program expenditures that are directly processed by the University. An administrative fee is charged for processing transactions and is recognized as administrative fee revenue. The Research Foundation recognized administrative fee revenue in the amount of \$72,791 for these services in fiscal year 2021. The net position for the USF Incubator Program of \$1,100,063 at June 30, 2021 is included in the statement of fiduciary net position.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 14—Related party transactions (continued)

Included in the due to University of South Florida payable in the statement of net position as of June 30, 2021 are Research funds held on behalf of University faculty, department, and colleges in the amount of \$4,279,667 that will be utilized to support their research and education activities. The Research Foundation distributes royalties from intellectual property net revenue to these research funds. During fiscal year 2021, the Research Foundation recognized royalty distribution expense of \$314,354 and \$230,869, respectively, to University departments and colleges' research funds, of which \$204,591 and \$95,563, respectively, were distributed. Accrued royalties payable of \$604,475 are included in the due to University payable in the statement of net position.

The due to University of South Florida payable also includes an accrued payable of \$7,382,214 to Research funds related to equity holdings acquired from executed intellectual property agreements. The accrued payable is based on fair value of the equity securities as of June 30, 2021, and is distributable upon the sale of the stocks.

Under agreements with the University, the Research Foundation is engaged to manage renovations of research facilities to support University research within the USF Research Park. At June 30, 2021, funding received in excess of costs incurred of \$321,673 is included in the due to University payable in the statement of net position.

All personnel of the Research Foundation are employees of the University with employee benefits and compensated absences accounted for on the University's books. The University tracks, administers, and reports all payroll and fringe benefit costs for Research Foundation personnel, which are then reimbursed to the University by the Research Foundation. In fiscal year 2021, salary and fringe benefit costs were \$1,196,369.

Note 15—Contingencies

COVID-19 is a global pandemic that has, among other things, adversely impacted global commercial activity, created disruption to global supply chains and contributed to significant declines and volatility in the financial markets. The outbreak could have a material, adverse impact on economic and market conditions and trigger a period of global economic shutdown. Given the uncertainties surrounding COVID-19, financial impacts could occur to the Research Foundation that are unknown at this time. These impacts could include, but are not limited to, the valuation of our investments, delays in the supply chain for materials needed for construction projects, and impacts to our tenants' ability to access their leased space.

Note 16—Subsequent events

In June of fiscal year 2021, equity holdings acquired in prior fiscal years from a licensee of executed intellectual property agreements, had an initial public offering of common stock. In accordance with the license agreements a total of 4,208,920 shares were issued in the name of the Research Foundation. The certification of shares will include 2,314,907 in the name of the USF Research Foundation, with the balance of 1,894,013 shares certificated to the inventors.

The fair value based on the closed price of \$8.74 per share at June 30, 2021, of the shares to be certificated to the Research Foundation is included in the statement of net position as other investments. 841,785 of the 2,314,907 shares to be certificated to the Research Foundation are held on behalf of research funds. A corresponding liability for the fair value of the shares held on behalf of the research funds is included in the due to University payable in the statement of net position. Upon sale of the Research Foundation certificated shares, the proportionate proceeds will be transferred to those research funds.

Subsequent to June 30, 2021 the fair value of the equity holding has significantly fluctuated from \$8.74 per share with an average close of \$4.07 per share from July 1, 2021 through September 30, 2021. The closing price on October 8, 2021 was \$2.55. This history of decline since June 30, 2021 could negatively impact investment balances in the statement of net position and related investment income.

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

YEAR ENDED JUNE 30, 2021

	Program Services	Management and General	Total
Depreciation expense	\$ 2,640,645	\$ 29,573	\$ 2,670,218
Royalty expense	1,692,078	-	1,692,078
Utilities	1,443,400	-	1,443,400
Repairs and maintenance	1,305,366	17,657	1,323,023
Salary and wages	612,260	452,000	1,064,260
Rental expense	651,692	-	651,692
Fringe benefits	193,985	147,171	341,156
Insurance	270,579	9,173	279,752
Real estate tax	137,864	-	137,864
Bad debt expense	118,553	-	118,553
Amortization expense	115,912	-	115,912
Technology costs	112,445	-	112,445
Professional fees	4,315	78,540	82,855
Independent contractors	27,720	30,815	58,535
Telephone	34,481	11,064	45,545
Materials and supplies	28,511	11,264	39,775
Grant administrative fees	23,527	-	23,527
Travel	11,764	10	11,774
Subscriptions and memberships	3,540	1,280	4,820
Bank fees	1,525	2,105	3,630
Postage and freight	-	1,315	1,315
Printing costs	99	468	567
Participant stipends and tuition	300	-	300
Total Operating Expenses	\$ 9,430,561	\$ 792,435	\$ 10,222,996

**Report of Independent Auditor on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of the University of South Florida Research Foundation, Inc. (the "Research Foundation"), as of and for the year ended June 30, 2021, 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 13, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Research Foundation's internal control over financial reporting ("internal control") as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Research Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Research Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Cherry Bekant LLP

Tampa, Florida
October 13, 2021