



Financial Statements and Other Information

***The University of Central Florida Research
Foundation, Inc.***

Years Ended June 30, 2021 and 2020

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The University of Central Florida
Research Foundation, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of The University of Central Florida Research Foundation, Inc. (the Research Foundation), a component unit of The University of Central Florida, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Research Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 audits. We conducted our audits 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 Research Foundation'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 Research Foundation'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 University of Central Florida Research Foundation, Inc. as of June 30, 2021 and 2020, and the changes in its net position and its cash flows for the years 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 management's discussion and analysis on pages 3 through 7 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 audits 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 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 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.

PYA, P.C.

Tampa, Florida
August 26, 2021

Management's Discussion and Analysis

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Management's Discussion and Analysis

The University of Central Florida Research Foundation's (the Research Foundation), a direct support organization of the University of Central Florida (the University or UCF), management prepared the following discussion and analysis of the Research Foundation's financial statements, as of and for the years ended June 30, 2021 and 2020. This discussion and analysis is intended to serve as an introduction to the Research Foundation's basic financial statements. It should be read in conjunction with the basic financial statements and notes thereof.

The report consists of the following:

- Management's Discussion and Analysis
- Basic Financial Statements, which include:
 - Statements of Net Position;
 - Statements of Revenue, Expenses, and Changes in Net Position;
 - Statements of Cash Flows; and
 - Notes to the Financial Statements.

The statements of net position present all of the Research Foundation's assets and liabilities, with the difference between the two reported as "net position." Over time, increases or decreases in the net position may serve as a useful indicator of whether the financial position of the Research Foundation is improving or declining.

The statements of revenue, expenses, and changes in net position explain whether revenue and other support exceed expenses, which results in an increase in net position, or whether there is a decrease in net position. All changes in net position are reported as soon as the underlying events giving rise to the change occurs, regardless of the timing of related cash flows.

The statements of cash flows are another way of assessing the Research Foundation's financial viability. The primary purpose of the statements of cash flows is to provide relevant information about cash receipts and cash payments of the Research Foundation throughout the fiscal year.

These financial statements include all assets and liabilities using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and the pronouncements of the Governmental Accounting Standards Board.

Footnotes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Management's Discussion and Analysis - Continued

FINANCIAL HIGHLIGHTS

Net Position: The statements of net position report all financial resources of the Research Foundation as of the end of the fiscal year. Net position over time can be a useful indicator of an entity's financial position. The Research Foundation's assets exceed liabilities as of June 30, 2021 and 2020 by \$10,509,880 and \$8,657,952, respectively. Those amounts include the net position which was temporarily restricted as of June 30, 2021 and 2020 of \$1,955,235 and \$1,821,076, respectively. The following schedule is a summary of the Research Foundation's statements of net position.

STATEMENTS OF NET POSITION

	<i>June 30,</i>	
	<i>2021</i>	<i>2020</i>
ASSETS		
Current assets	\$ 26,688,271	\$ 21,010,868
Noncurrent assets	49,036	306,508
TOTAL ASSETS	<u>\$ 26,737,307</u>	<u>\$ 21,317,376</u>
LIABILITIES		
Current liabilities	\$ 16,227,427	\$ 12,659,424
TOTAL LIABILITIES	<u>\$ 16,227,427</u>	<u>\$ 12,659,424</u>
NET POSITION		
Unrestricted	\$ 8,554,645	\$ 6,836,876
Temporarily restricted	1,955,235	1,821,076
TOTAL NET POSITION	<u>\$ 10,509,880</u>	<u>\$ 8,657,952</u>

During fiscal year 2021 total assets increased by \$5,419,931 primarily due to an increase in Due from UCF and prepaid expenses of \$5,697,164 and offset by a decrease in cash, investments, and accounts receivable of \$277,233. Total liabilities increased by \$3,568,003 due to an increase in accounts payable, restricted cash for contracts, grants, contributions, other agreements, and research initiatives of \$3,674,173 and offset by a decrease in Allocations and Facilities and Administrative payable of \$106,170.

A portion of the Due from UCF is restricted for use on contracts, grants, donations and other agreements. In fiscal year 2021, this amount was \$10,987,010.

The following schedule is a summary of the Research Foundation's statements of revenue, expenses, and changes in net position.

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Management's Discussion and Analysis - Continued

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

	<u>2021</u>	<u>2020</u>
UNRESTRICTED NET POSITION		
Operating revenue	\$ 14,805,081	\$ 11,811,176
Net position released from restrictions	1,412,707	1,279,648
Operating expenses	(15,168,500)	(12,512,165)
OPERATING INCOME	1,049,288	578,659
NON-OPERATING REVENUE	668,481	568,709
INCREASE IN NET POSITION	1,717,769	1,147,368
NET POSITION, BEGINNING OF YEAR	6,836,876	5,689,508
UNRESTRICTED NET POSITION, END OF YEAR	<u>\$ 8,554,645</u>	<u>\$ 6,836,876</u>
TEMPORARILY RESTRICTED NET POSITION		
Restricted contribution revenue	\$ 1,546,866	\$ 1,955,848
Net position released from restrictions	(1,412,707)	(1,279,648)
INCREASE IN NET POSITION	134,159	676,200
TEMPORARILY RESTRICTED NET POSITION, BEGINNING OF YEAR	1,821,076	1,144,876
TEMPORARILY RESTRICTED NET POSITION, END OF YEAR	<u>\$ 1,955,235</u>	<u>\$ 1,821,076</u>

Analysis of Operating Revenue: Operating revenue includes royalties and licensing fees, contracts and grants, other agreements, contributions, and research initiatives. In fiscal year 2021, operating revenue and net position released from restrictions was greater than fiscal year 2020 by \$3,126,964 due to an increase in operating revenue of \$2,778,360, an increase in Office of Research and Commercialization (ORC) contributions and miscellaneous income of \$215,545, and an increase in net position released from restrictions of \$133,059.

Analysis of Non-operating Revenue (Expenses): Non-operating revenue (expenses) consists of interest, investment gains and losses, and dividends. In fiscal year 2021, non-operating revenue (expense) was greater than fiscal year 2020 by \$99,772 due to an increase in gain on investments of \$297,559 offset by a negative change in investment revenue of \$197,787.

Analysis of Temporarily Restricted Net Position: The temporarily restricted net position is a result of donations or contributions received during the year which are restricted by the donor for a specific purpose, such as research by a professor. The temporarily restricted net position is restricted for the general purpose of research activities. Restricted net position is released from restrictions and transferred to unrestricted net position when all donor or principal investigator provisions have been met. Total restricted contribution revenue received during fiscal year 2021 was \$1,546,866 compared to \$1,955,848 received in fiscal year 2020.

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Management's Discussion and Analysis - Continued

ANALYSIS OF OPERATING EXPENSES

	<u>2021</u>	<u>2020</u>
OPERATING EXPENSES		
Contracts, grants, contributions, royalty and license expense, other agreements and research initiatives	\$ 14,003,973	\$ 11,228,823
Royalty expense valuation on investments	-	(90,060)
Office of Research and Commercialization and other expenses	86,275	122,633
Salaries and other benefits	1,063,743	1,038,389
Professional expenses	14,509	212,380
TOTAL OPERATING EXPENSES	<u>\$ 15,168,500</u>	<u>\$ 12,512,165</u>

Operating expenses were \$2,656,335 more in fiscal year 2021 than in fiscal year 2020. Contracts, grants, contributions, other agreements and research initiatives increased by \$2,775,150 along with salaries and other benefits and royalty expense valuation increasing by \$25,354 and \$90,060, respectively. These increases were offset by ORC sponsored activities and professional services decreasing by \$234,229.

ANALYSIS OF CASH FLOWS

	<u>2021</u>	<u>2020</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 4,724,886	\$ 4,588,079
NET CASH PROVIDED BY INVESTING ACTIVITIES	925,953	995,926
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,650,839	5,584,005
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	18,218,669	12,634,664
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 23,869,508</u>	<u>\$ 18,218,669</u>

Overall cash and cash equivalents increased by \$5,650,839 in fiscal year 2021. This was primarily due to contracts, grants, other agreements, ORC contributions, and research initiatives cash received being greater than related cash payments by \$4,183,092, royalty cash received exceeding royalty allocation payouts by \$541,794, and net cash increasing for investing activities by \$925,953.

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Management's Discussion and Analysis - Continued

OTHER SIGNIFICANT EVENTS

The Research Foundation has a wholly owned subsidiary, the UCF Research Foundation Real Estate LLC, which was created to hold any land and buildings that the Research Foundation obtained. Currently there is no activity in the subsidiary.

ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE

The University employs individuals whose salaries are allocated to the Research Foundation. During fiscal years ended June 30, 2021 and 2020, the Research Foundation reimbursed the University for certain administrative salaries and related benefits. Other items such as office space and minor operating expenses, such as travel, are also provided for by the University. The University is expected to continue to provide this support. However, should the economy significantly affect state appropriations, this may have an impact on the support provided for the Research Foundation's activities.

Financial Statements

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Statements of Net Position

	<i>June 30,</i>	
	<i>2021</i>	<i>2020</i>
ASSETS		
CURRENT ASSETS		
Cash	\$ 419,472	\$ 424,132
Due from University of Central Florida	23,450,036	17,794,537
Accounts receivable (net of allowance for doubtful accounts)	2,775,090	2,790,191
Prepaid expenses	43,673	2,008
TOTAL CURRENT ASSETS	<u>26,688,271</u>	<u>21,010,868</u>
NONCURRENT ASSETS		
Investments	49,036	306,508
TOTAL NONCURRENT ASSETS	<u>49,036</u>	<u>306,508</u>
TOTAL ASSETS	<u>\$ 26,737,307</u>	<u>\$ 21,317,376</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 367,746	\$ 270,509
Allocations and Facilities and Administrative payable	2,420,557	2,526,727
Unearned restricted revenue	13,439,124	9,862,188
TOTAL CURRENT LIABILITIES	<u>16,227,427</u>	<u>12,659,424</u>
NET POSITION		
Unrestricted	8,554,645	6,836,876
Temporarily restricted	1,955,235	1,821,076
TOTAL NET POSITION	<u>10,509,880</u>	<u>8,657,952</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 26,737,307</u>	<u>\$ 21,317,376</u>

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Statements of Revenue, Expenses and Changes in Net Position

	<i>Year Ended June 30,</i>	
	<i>2021</i>	<i>2020</i>
UNRESTRICTED NET POSITION:		
OPERATING REVENUE		
Royalties and licensing fees	\$ 2,400,379	\$ 1,122,779
Royalty loss on investments	-	(235,438)
Contracts and grants	9,355,078	8,380,212
Other agreements income	403,578	283,854
Research initiatives	943,516	772,784
Office of Research and Commercialization contributions and miscellaneous income	1,702,530	1,486,985
Net position released from restrictions	1,412,707	1,279,648
TOTAL OPERATING REVENUE	<u>16,217,788</u>	<u>13,090,824</u>
OPERATING EXPENSES		
Royalties and licensing allocations	2,011,450	530,398
Royalties valuation account	-	(90,060)
Contracts and grant expenses	9,355,078	8,380,212
Other agreements expense	403,578	283,854
Contribution expense	1,412,707	1,279,648
Research initiatives	821,160	754,711
Office of Research and Commercialization and other expenses	86,275	122,633
Salaries and other benefits	1,063,743	1,038,389
Professional expenses	14,509	212,380
TOTAL OPERATING EXPENSES	<u>15,168,500</u>	<u>12,512,165</u>
NET OPERATING REVENUE	<u>1,049,288</u>	<u>578,659</u>
NON-OPERATING REVENUE (EXPENSES)		
Investment revenue	371,771	569,558
Investment gain (loss)	296,710	(849)
TOTAL NON-OPERATING REVENUE	<u>668,481</u>	<u>568,709</u>
INCREASE IN UNRESTRICTED NET POSITION	1,717,769	1,147,368
UNRESTRICTED NET POSITION, BEGINNING OF YEAR	<u>6,836,876</u>	<u>5,689,508</u>
UNRESTRICTED NET POSITION, END OF YEAR	<u>\$ 8,554,645</u>	<u>\$ 6,836,876</u>

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Statements of Revenue, Expenses and Changes in Net Position - Continued

	<i>Year Ended June 30,</i>	
	<i>2021</i>	<i>2020</i>
TEMPORARILY RESTRICTED NET POSITION		
Restricted contribution revenue	\$ 1,546,866	\$ 1,955,848
Net position released from restrictions	<u>(1,412,707)</u>	<u>(1,279,648)</u>
INCREASE IN TEMPORARILY RESTRICTED NET POSITION	134,159	676,200
TEMPORARILY RESTRICTED NET POSITION, BEGINNING OF YEAR	<u>1,821,076</u>	<u>1,144,876</u>
TEMPORARILY RESTRICTED NET POSITION, END OF YEAR	<u>1,955,235</u>	<u>1,821,076</u>
TOTAL NET POSITION	<u>\$ 10,509,880</u>	<u>\$ 8,657,952</u>

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Statements of Cash Flows

	<i>Year Ended June 30,</i>	
	<i>2021</i>	<i>2020</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received (used) for:		
Licensing fees and royalties	\$ 2,540,698	\$ 1,222,398
Contracts, grants, contributions and research initiatives Office of Research and Commercialization contributions and expenses	15,700,756	15,230,644
Royalties and licensing allocations	1,688,021	1,274,605
Contracts, grants, contributions and research initiatives	(1,998,904)	(1,061,422)
Other disbursements	(11,560,897)	(9,981,657)
	(1,644,788)	(2,096,489)
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,724,886	4,588,079
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment revenue	371,771	569,558
Sale of investments	554,182	426,368
NET CASH PROVIDED BY INVESTING ACTIVITIES	925,953	995,926
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,650,839	5,584,005
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	18,218,669	12,634,664
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 23,869,508	\$ 18,218,669
CASH AND CASH EQUIVALENTS PRESENTED IN THE FINANCIAL STATEMENTS AS:		
Cash	\$ 419,472	\$ 424,132
Due from University of Central Florida	23,450,036	17,794,537
TOTAL CASH AND CASH EQUIVALENTS PRESENTED TO THE FINANCIAL STATEMENTS	\$ 23,869,508	\$ 18,218,669

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Statements of Cash Flows - Continued

	<i>Year Ended June 30,</i>	
	<i>2021</i>	<i>2020</i>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net operating revenue	\$ 1,049,288	\$ 578,659
Adjustments to reconcile net operating revenue to net cash provided by operating activities:		
Increase in restricted net position	134,159	676,200
Loss in fair value of operating investments	-	235,438
Royalties expense valuation account	-	(90,060)
Provision for doubtful accounts	168,319	136,834
Decrease (increase) in accounts receivable	(153,218)	1,945,081
Decrease (increase) in prepaid expenses	(41,665)	33,952
Increase (decrease) in accounts payable	97,237	(435,794)
Decrease in allocations and		
Facilities and Administrative payable	(106,170)	(347,881)
Increase in unearned restricted revenue	3,576,936	1,855,650
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 4,724,886	\$ 4,588,079

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The University of Central Florida Research Foundation, Inc. and Subsidiary (the Research Foundation), is a not-for-profit Florida Corporation incorporated April 30, 1991. The Research Foundation is operated exclusively for the benefit of The University of Central Florida (the University or UCF). The Research Foundation is a University Direct-Support Organization within the definition of Florida Statutes Section 240.299, and as such is organized and operated exclusively to receive, hold, invest and administer property and to make expenditures to or for the benefit of the University. Since the Research Foundation's purpose complements that of the University's Office of Research, many functions are coordinated to maximize the benefit to the University's research community.

The purposes of the Research Foundation include the following:

- Promotion and encouragement of, and assistance to, the research activities of faculty, staff and students of the University.
- Development of research.
- Development of the provision of buildings for such research activities and related or complementary uses.
- Providing a means by which inventions and copyrightable materials may be developed, patented, applied and utilized in order that the results of the University research shall be made available to the public and that funds be made available from inventions and copyrightable materials to support education and research at the University.

The Research Foundation formed a wholly owned subsidiary, UCF Research Foundation Real Estate LLC, for the purpose of holding land and a building that was donated by Intersil Corp in April 2010, but was subsequently returned to Intersil. There were no assets, liabilities, net position or activity for the LLC as of and for the years ended June 30, 2021 and 2020. As such, no accounts for the LLC are reflected in these financial statements.

Basis of Accounting and Financial Reporting: The financial statements of the Research Foundation are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting.

In accordance with GAAP, the Research Foundation qualifies for treatment as a component unit of the University of Central Florida; therefore, the Research Foundation's financial statements are included in the University's financial statements.

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2021 and 2020

For financial reporting purposes, the Research Foundation is considered a special-purpose government organization engaged only in business-type activities. Accordingly, the Research Foundation's financial statements have been presented using the 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.

Changes in the net position of the Research Foundation as a result of support, revenue, expenses, gains and losses are classified based on the existence of any funding restrictions. Accordingly, the net position of the Research Foundation and changes therein are classified and reported as follows:

- *Unrestricted:* Net position that is not subject to funding restrictions. The unrestricted net position may be designated for specific purposes by action of the Board of Directors.
- *Temporarily Restricted:* Net position whose use by the Research Foundation is subject to donor-imposed stipulations that can be fulfilled by actions of the Research Foundation pursuant to those stipulations or that expire by the passage of time.

Expenses are reported as decreases in the unrestricted net position. Expirations of donor-imposed stipulations that simultaneously increase one class of net position and decrease another are reported as reclassifications between the applicable classes of net position. Residual funds from fixed priced contracts remain restricted as unearned restricted revenue for the principal investigator to spend on research related activities. Revenue is recognized as the respective project expenditures occur. When both restricted and unrestricted resources are available for use, it is the Research Foundation's policy to use restricted resources first, then unrestricted resources as they are needed.

These financial statements are entirely those of the Research Foundation alone and, accordingly, are not intended to present the financial position or the results of operations of the University.

Fund Accounting: To ensure observance of limitations and restrictions placed on the use of resources available to the Research Foundation, the accounts of the Research Foundation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. All of the Research Foundation's financial activity is accounted for in a single enterprise fund.

Cash and Cash Equivalents: Cash and cash equivalents consist of amounts on deposit with financial institutions in a checking repurchase sweep account and a savings account and amounts held by UCF under a fiscal agent arrangement.

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2021 and 2020

A portion of the Due from UCF is restricted for contracts and grants and project balances.

Due from UCF consists of amounts held by UCF to be invested in investment opportunities which are permissible under the current investment policy.

Investments: The Research Foundation accounts for investments with a readily determinable value in accordance with GASB Codification Section I50, *Investments*. Under this provision, investments are recorded at fair value on the statements of net position. Investment income, including changes in the fair value of investments, is reported as revenue in the statements of revenue, expenses and changes in net position.

Fair value is based on the quoted market price for securities, other than closely held common stock, and is adjusted to fair value upon known relevant information.

Closely held common stock is valued using the cost or equity method. The equity method is utilized for investments in which the Research Foundation has significant influence and the cost method is utilized for investments in which a readily determinable fair value is not available. Under the equity method, the investment is recorded at historical cost and increased or decreased by the investor's share of the Research Foundation's profit or loss and the Research Foundation's share of dividends. Under the cost method, a long-term investment is recorded at cost and carried at that amount until it is sold or otherwise disposed of or if there is an impairment in the value.

Receivables: Receivables are valued at net realizable value and are unsecured. It is the Research Foundation's policy to provide an allowance for accounts receivable that are not expected to be collected. The allowance as of June 30, 2021 and 2020 was \$596,076 and \$427,757, respectively.

Fair Value of Financial Instruments: The Research Foundation did not hold any derivative instruments for trading purposes at June 30, 2021 and 2020, and does not invest in derivative instruments. The carrying amount of cash receivables and payables approximates fair value.

Capital Assets: It is the Research Foundation's policy to capitalize fixed assets with a cost or estimated fair value over \$5,000 at the date of purchase or donation, respectively, and a useful life of over one year. Maintenance and repairs are charged to expense when incurred, betterments are capitalized.

Allocations Payable: Allocations payable consists of royalty and license fee distributions accrued to individuals and University departments responsible for the development of various patented or copyrighted research. The Research Foundation calculates the amount due to those parties and accrues a liability for this amount. Also included is the Facilities and Administrative (F&A) payable accrued to University departments responsible for the project.

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2021 and 2020

Unearned Restricted Revenue: Unearned restricted revenue consists primarily of the unexpended portions of contracts and grants that are being administered by the Research Foundation. Revenue is recognized only to the extent expenses are incurred in executing the applicable contracts and grants.

Classification of Revenue: The Research Foundation classifies its revenue as operating or non-operating according to the following criteria:

- *Operating Revenue:* Includes activities that have the characteristics of exchange transactions, such as royalty and licensing transactions and contracts and grants. Exchange transactions are transactions in which each party receives and gives up essentially equal values. Contribution income is also considered operating revenue.
- *Non-operating Revenue:* Includes activities that are not normal Research Foundation operating activities, such as investment income and investment gains and losses.

Revenue Recognition: The Research Foundation negotiates with licensees for their purchase of or license to use inventions and the related patents, trademarks and copyrights developed by the University and its employees. Pursuant to its operating agreement with the University, the Research Foundation collects the licensees' payments and distributes the proceeds to the inventors and the University. The Research Foundation recognizes royalty and licensing revenue when amounts are earned with licensees in accordance with the terms in the license agreement. Patent, trademark and copyright application costs are expensed when incurred. Revenue is recognized on contracts and grants, other agreements and research initiatives when disbursements are incurred. Revenue is recognized on contributions when received or when an enforceable promise is made.

Income Taxes: The Research Foundation is exempt under Section 501(c)(3) of the Internal Revenue Code and, therefore, no provision for income tax expense or liability has been made.

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Facilities Use and Personnel: Facilities and personnel are provided to the Research Foundation by the Office of Research and Commercialization, a division of the University. During fiscal years ended June 30, 2021 and 2020, the Research Foundation reimbursed the University for certain administrative personnel costs. Annually, the Research Foundation and the University agree to what expenses will be reimbursed.

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2021 and 2020

NOTE B--CASH AND CASH EQUIVALENTS

Custodial Credit Risk: At June 30, 2021 and 2020, funds of approximately \$23,450,000 and \$17,795,000 were invested in the Special Purpose Investment Account and other UCF investment accounts with the funds being held by UCF. These amounts are not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) and are included in the accompanying statements of net position as due from UCF.

The Research Foundation maintains a repurchase sweep account with a local bank. The target balance in the main operating accounting is “swept” overnight by the bank and is collateralized by mortgage-backed securities issued by the Federal National Mortgage Association and/or the Federal Home Loan Mortgage Corporation which have been temporarily sold to the Research Foundation under the terms of the repurchase agreement. The balance in the repurchase account as of June 30, 2021 and 2020 was \$141,405 and \$146,204, respectively. These amounts are not included in the deposit amount uninsured by FDIC.

NOTE C--INVESTMENTS

The Research Foundation has adopted an investment policy that includes objectives, performance measures, and guidance on authorized investments. The Research Foundation’s primary investment objective is to preserve and protect its assets by earning a total return for each category of assets which is appropriate for each fund’s time horizon, distribution requirements, and risk tolerance. All investments are held in the name of the Research Foundation.

Investments consist of the following as of June 30:

	<i>Stated Value Method</i>	<i>2021</i>	<i>2021 Portfolio Percentage</i>	<i>2020</i>
Corporate stock: Uber Technologies	FMV	\$ -	0%	\$ 212,935
Stock rights: Kiadis Pharma	FMV	-	0%	30,776
Investment in Banyan Fund	FMV	29,866	61%	52,795
Investment in Inflexion, LLC	FMV	19,170	39%	10,002
		<u>\$ 49,036</u>	<u>100%</u>	<u>\$ 306,508</u>

Credit Risk and Concentration of Credit Risk: Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. As of June 30, 2021 and 2020, investments were uncollateralized and therefore exposed to credit risk. Further, all investments except the investment in Inflexion, LLC were subject to a concentration

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2021 and 2020

of credit risk. The percentage allocation of each investment type in the portfolio is shown in the table above.

NOTE D--RISK MANAGEMENT

The Research Foundation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Research Foundation has acquired commercial liability insurance coverage to secure against potential losses.

NOTE E--FAIR VALUE MEASUREMENT

GASB emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As such, GASB defines fair value as 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. GASB describes fair value as an exit price where measurement assumes a transaction takes place in an entity's principal market, or most advantageous market in the absence of a principal market, and the market participants are acting in their economic best interests. GASB requires an entity to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. Valuation techniques should be applied consistently and maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Valuation Hierarchy: GASB establishes a hierarchy of inputs to valuation techniques used to measure fair value. The hierarchy has three levels which are defined as follows:

- *Level 1:* Inputs to the valuation technique are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- *Level 2:* Inputs to the valuation technique, other than quoted prices within Level 1, that are observable for an asset or liability, either directly or indirectly.
- *Level 3:* Inputs to the valuation technique are unobservable.

In instances where the determination of the fair value hierarchy measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Research Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2021 and 2020

The following table presents assets reported at fair value as of June 30, 2021 and 2020, and their respective classification under the GASB valuation hierarchy:

	<i>Carrying Value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
June 30, 2021				
Cash equivalents: Repurchase Agreement	\$ 141,405	\$ 141,405	\$ -	\$ -
Investment in Banyan Fund	29,866	-	29,866	-
Investment in Inflexion, LLC	19,170	-	19,170	-
	<u>\$ 190,441</u>	<u>\$ 141,405</u>	<u>\$ 49,036</u>	<u>\$ -</u>
June 30, 2020				
Cash equivalents: Repurchase Agreement	\$ 146,204	\$ 146,204	\$ -	\$ -
Corporate Stock: Uber Technologies, Inc.	212,935	212,935	-	-
Stock rights: Kiadis Pharma	30,776	-	-	30,776
Investment in Banyan Fund	52,795	-	52,795	-
Investment in Inflexion, LLC	10,002	-	10,002	-
	<u>\$ 452,712</u>	<u>\$ 359,139</u>	<u>\$ 62,797</u>	<u>\$ 30,776</u>

The fair value measurements of the cash equivalents in the repurchase agreement and the corporation stock are based on quoted market prices. The fair value measurements of the investments in the Banyan Fund and Inflexion, LLC are based off quarterly valuations from the respective fund managers. A certain portion of the inputs used to value the Kiadis Pharma stock rights was based on unobservable inputs. As a result, the Research Foundation had determined that this investment was classified in Level 3 of the fair value hierarchy.

NOTE F--OPERATING LEASES

The Research Foundation entered into a lease in September 2010. This lease ended in September 2013, when an amendment to the operating lease was entered into for an office building in Kissimmee, Florida for a term of six years. In September 2019, the lease was renewed again for a term of three years with base rent payments to be \$1 per year. The premises shall be used and occupied as general business offices related to the Kissimmee business incubator, and other related incubator activities, and for no other purpose. The rental amounts are chargeable to a funded contract agreement. Total rental expense associated with the lease was approximately \$1 for fiscal years ended June 30, 2021 and 2020, respectively.

Future minimum rental payment is \$1 for each of the years ending June 30, 2022 and 2023.

The Research Foundation entered into an operating lease in October 2010 and renewed this lease when it ended in October 2013 and renewed again in October 2016 for an office building in Winter Springs, Florida through September 2019. In October 2019, the lease was amended and term extended through September 2020. In October 2020, the lease was amended again and

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2021 and 2020

term extended through September 2023. The premises are limited to use as general business offices related to the Winter Springs business incubator, and other related incubator activities, and for no other purpose. The rental amounts are chargeable to a funded contract agreement. Total rental expense associated with the lease was approximately \$231,000 and \$236,000 for fiscal years ended June 30, 2021 and 2020, respectively.

Future minimum rental payments are approximately:

<u>Year Ending June 30,</u>	
2022	\$ 234,473
2023	239,630
2024	60,231
	<u>\$ 534,334</u>

NOTE G--TEMPORARILY RESTRICTED NET POSITION

The temporarily restricted net position of \$1,955,235 and \$1,821,076 was available for research initiatives at June 30, 2021 and 2020, respectively. The temporarily restricted net position released from donor and principal investigator restrictions by incurring expenses satisfying the restricted purposes of research activities was \$1,412,707 and \$1,279,648 for the years ended June 30, 2021 and 2020, respectively.

NOTE H--FISCAL AGENT ARRANGEMENTS

The Research Foundation acts as fiscal agent for four entities: Florida High Tech Corridor Council (FHTCC), International Consortium for Advanced Manufacturing Research (ICAMR, Inc. dba BRIDG), the National Entrepreneur Center (NEC) and the Academy of Science, Engineering, and Medicine of Florida (ASEM-FL). As fiscal agent, the Research Foundation earns a management fee from two out of four entities (NEC and BRIDG) by providing administrative oversight of financial matters including collection, administration and disbursement of funds. Management fees were approximately \$225,000 and \$360,000 for the years ended June 30, 2021 and 2020, respectively.

NOTE I--UNIVERSITY OF CENTRAL FLORIDA APPLIED RESEARCH INSTITUTE

The University of Central Florida Applied Research Institute (UCFARI) was created during the year ended June 30, 2016 as a DBA to compete for contracts and grants related to applied research efforts (TRL 4-7). There were four and seven applied research projects included in the Research Foundation's financial statements for the years ended June 30, 2021 and 2020, respectively. Revenue and expenses related to these projects was \$1,113,252 and \$1,605,934 for the years ended June 30, 2021 and 2020, respectively.

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2021 and 2020

NOTE J--SUBSEQUENT EVENTS

Pandemic: Due to a world-wide pandemic that began in 2020, there continues to be substantial volatility in macroeconomic conditions. The Research Foundation continues to monitor this volatility and the ultimate outcome of the pandemic on the Research Foundation is unknown.

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued. During this period, management did not note any material recognizable subsequent events that required recognition or disclosure in the June 30, 2021 financial statements except as discussed above.

Other Information

REPORT 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*

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The University of Central Florida
Research Foundation, Inc.:

We have audited, 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, the financial statements of The University of Central Florida Research Foundation, Inc. (the Research Foundation), which comprise the statement of net position as of June 30, 2021, and the related statements of revenue, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 26, 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 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 Research Foundation'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 Research Foundation'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 Research Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DYA, P.C.

Tampa, Florida
August 26, 2021