

FINANCIAL STATEMENTS

University of South Florida Foundation, Inc.

Years Ended June 30, 2021 and 2020

With Report of Independent Auditor

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Contents

Report of Independent Auditor	3-4
Management’s Discussion and Analysis (Unaudited).....	5-14
Financial Statements	
Statements of Net Position.....	15-16
Statements of Revenues, Expenses, and Changes in Net Position	17
Statements of Cash Flows.....	18-19
Statements of Fiduciary Net Position	20
Statements of Changes in Fiduciary Net Position.....	21
Notes to Financial Statements	22-49
Supplemental Schedule	
Schedules of Functional Expenses.....	50-51

Report of Independent Auditor

To the Board of Directors and Management
University of South Florida 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 Foundation, Inc. (the “Foundation”), a direct support organization and component unit of the University of South Florida, as of and for the years ended June 30, 2021 and 2020, and the related notes to financial statements, which collectively comprise the 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 opinions 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 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 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 Foundation, as of June 30, 2021 and 2020, and the respective changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Foundation adopted the recognition and disclosure requirements of Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*, effective July 1, 2019. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 to 14 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 of the financial statements that collectively comprise the Foundation's basic financial statements. The schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of functional expenses are the responsibility of management and was derived from and relate 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 schedules of functional expenses are 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 22, 2021, on our consideration of the 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 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 Foundation's internal control over financial reporting and compliance.

Cherry Bekkert LLP

Tampa, Florida
October 22, 2021

University of South Florida Foundation, Inc.

Management's Discussion and Analysis (Unaudited)

June 30, 2021 and 2020

Management's discussion and analysis ("MD&A") provides an overview of the financial position and activities of the University of South Florida Foundation, Inc., including its blended component unit, the USF Real Estate Foundation, LLC, (the "Foundation"), as of and for the years ended June 30, 2021 and 2020 and comparative amounts for the year ended June 30, 2019. Since discussion and analysis is designed to focus on current activities, it should be read in conjunction with the financial statements and notes thereto. The MD&A, financial statements, and notes thereto, are the responsibility of Foundation management.

The Foundation is a direct support organization and component unit of the University of South Florida (a government agency) (the "University" or "USF"). The Foundation solicits, receives, holds, invests, and administers charitable contributions for the University. The Foundation accounts for its transactions in accordance with the pronouncements issued by the Governmental Accounting Standards Board ("GASB").

Financial Highlights

During fiscal year 2021, the Foundation's net position, which represents the excess of total assets over liabilities and deferred inflows of resources, increased by \$201.2 million. This is compared to an increase in net position during fiscal year 2020 of \$51.3 million.

The increase in net position is primarily the result of investment returns of the Foundation's investment portfolios. The endowment pool had a net total return of 35.1% as of June 30, 2021 compared to 5.3% as of June 30, 2020.

During fiscal year 2020, the Foundation's net position, which represents the excess of total assets over liabilities and deferred inflows of resources, increased by \$51.3 million. This is compared to an increase in net position during fiscal year 2019 of \$33.6 million.

The increase in net position is primarily the result of investment returns of the Foundation's investment portfolios coupled with increased contributions to both current use and endowed gift funds. The endowment pool had a net total return of 5.3% as of June 30, 2020 compared to 6% as of June 30, 2019.

The Foundation expects fluctuations in contribution revenue, for both current use and endowment funds from year to year. The change in contributions to current use and endowed gift funds was a decrease of \$6.1 million and an increase of \$9.6 million as of June 30, 2021 and 2020, respectively, are attributable to efforts made by the Foundation to facilitate philanthropy for USF by engaging alumni and friends. Significant contributions, including bequests, are periodically received from donors as a result of relationships cultivated over many years. The timing of these contributions is not entirely predictable, and often will correlate with a fundraising initiative or campaign.

University of South Florida Foundation, Inc.

Management's Discussion and Analysis (Unaudited) (continued)

June 30, 2021 and 2020

Investment returns are a function of the financial markets and asset allocation strategy and are expected to fluctuate from year to year. The Foundation manages the endowment portfolio with a long-term philosophy of capital appreciation.

Overview of the Financial Statements

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as promulgated by the GASB. See notes to financial statements for a summary of the Foundation's significant accounting policies.

The Foundation is considered a Business-Type Activity ("BTA") under the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statement – Management's Discussion and Analysis – for Public Colleges and Universities*. The BTA format includes accounting on an accrual basis. The statements are a presentation of 1) assets and liabilities as current and noncurrent and deferred inflows of resources, 2) revenues and expenses as operating and nonoperating, 3) the use of the direct and indirect methods for the statement of cash flows, and 4) MD&A of the financial results. Pursuant to GASB Statement No. 35, the Foundation's basic financial statements include: the statements of net position; the statements of revenues, expenses, and changes in net position; the statements of cash flows; and other required supplemental information.

The fiduciary fund financial statements include investments held on behalf of other direct support organizations of the University. These funds represent trust responsibilities of the Foundation and are restricted in purpose. Accordingly, they do not represent discretionary assets of the Foundation and are not presented as part of the Foundation's basic financial statements.

The Statements of Net Position

The statements of net position include all assets, liabilities, and deferred inflows of resources. The Foundation's net position (the difference between assets, liabilities, and deferred inflows of resources) is one indicator of the Foundation's financial health, when considered in combination with other nonfinancial information. Restricted net position is comprised of expendable and nonexpendable and consists of assets that have constraints placed upon their use by external donors. Nonexpendable assets represent endowment assets whose principal cannot be spent and are required by the donor to be held in perpetuity. Unrestricted net position consists of any portion of net position that does not meet the definition of restricted or net investment in capital assets.

University of South Florida Foundation, Inc.

Management's Discussion and Analysis (Unaudited) (continued)

June 30, 2021 and 2020

During the year ended June 30, 2021, the Foundation adopted new accounting guidance by implementing the provisions of GASB No. 84, *Fiduciary Activities*, which establishes criteria for identifying and reporting fiduciary activities. The implementation of this statement has resulted in changing the presentation of the financial statements by removing fiduciary fund assets and associated liabilities from Foundation's statement of net position.

The following schedule is a condensed summary of the Foundation's statements of net position as of June 30, 2021, 2020, and 2019:

	2021	Restated 2020	Restated 2019
Assets			
Current assets	\$ 142,769,150	\$ 123,496,250	\$103,319,485
Noncurrent assets	786,908,520	594,347,833	558,939,727
Total Assets	929,677,670	717,844,083	662,259,212
Liabilities			
Current liabilities	9,423,444	3,090,040	3,188,709
Noncurrent liabilities	4,851,283	4,950,870	4,818,266
Total Liabilities	14,274,727	8,040,910	8,006,975
Deferred Inflows of Resources			
Remainder and beneficial interests	26,172,531	21,748,721	17,470,989
Net Position			
Net investment in capital assets	10,691,311	10,453,799	9,926,870
Restricted by donors-expendable	481,693,174	298,642,594	267,558,666
Permanent endowments-nonexpendable	371,482,143	360,710,543	343,973,054
Unrestricted	25,363,784	18,247,516	15,322,658
Total Net Position	\$ 889,230,412	\$ 688,054,452	\$ 636,781,248

Assets

Current assets, comprised of resources available to meet current obligations such as cash, short-term investments, and the portion of contributions and other receivables due within one year, increased by \$19.3 million during fiscal year 2021. Current assets tend to be fairly level from year to year. However, in fiscal year 2021, the Foundation experienced higher current use giving to establish a new academic center and for the construction of several academic and athletic facilities.

University of South Florida Foundation, Inc.

Management's Discussion and Analysis (Unaudited) (continued)

June 30, 2021 and 2020

As of June 30, 2020, current assets increased by \$20.2 million, as restated. Current assets tend to be fairly level from year to year. However, in fiscal year 2020, the Foundation experienced higher current use giving to establish a new academic center and for the construction of several academic and athletic facilities.

As of June 30, 2021, noncurrent assets represent \$786.9 million of total assets and consist of long-term investments (primarily related to the endowment), the portions of contributions and other receivables due beyond one-year, beneficial interests in irrevocable split-interest agreements, amounts due from the University and capital assets. Noncurrent assets increased by \$192.6 million during fiscal year 2021 which is mainly attributable to the effect of positive investment returns.

As of June 30, 2020, noncurrent assets represent \$594.3 million, as restated, of total assets and consist of long-term investments (primarily related to the endowment), the portions of contributions and other receivables due beyond one-year, beneficial interests in irrevocable split-interest agreements, amounts due from the University, and capital assets. Noncurrent assets increased by \$35.4 million, as restated, during fiscal year 2020 which is mainly attributable to the net effect of positive investment returns and an increase in contributions receivable to establish a new academic center and construct an athletics facility.

Liabilities

Current liabilities of \$9.4 million are comprised of amounts payable to the University and vendors at year-end, and the current portion of liabilities for a mortgage, amounts held for third party beneficiaries and trust and life income beneficiaries. Current liabilities tend to be fairly level from year to year, however, during the fiscal year, amounts due to the University were higher than in prior fiscal years 2020 and 2019 for pending transfers to fund the construction of an academic facility.

Noncurrent liabilities are primarily comprised of the long-term liability associated with the mortgage, amounts due to third party beneficiaries, and amounts due to trust and life income beneficiaries. Noncurrent liabilities tend to be fairly level from year to year and changes to the amounts due to third party beneficiaries will typically correlate with changes in investment performance.

Deferred Inflows of Resources

Deferred inflows of resources represent a future impact on net position. The Foundation classifies changes in irrevocable split-interest agreements as deferred inflows of resources. Changes in deferred inflows of resources are attributable to changes in liabilities due to trust and life income beneficiaries, new split-interest agreements, and maturities during the year.

University of South Florida Foundation, Inc.

Management's Discussion and Analysis (Unaudited) (continued)

June 30, 2021 and 2020

Net Position

Net position provides three classifications including net investment in capital assets, restricted, and unrestricted net position. Restricted net position consists of expendable resources made up of external, donor-restricted funds and appreciation from the endowment while restricted-nonexpendable resources represent permanent endowments to be held in perpetuity.

During fiscal year 2021, restricted expendable net position was \$481.7 million, which reflects an increase of \$183.1 million compared to June 30, 2020, due to an increased value of investments.

During fiscal year 2020, restricted expendable net position was \$298.6 million, which reflects an increase of \$31.0 million compared to June 30, 2019, due to an increased value of investments, new gifts, and contributions receivable.

During fiscal year 2021, restricted nonexpendable net position was \$371.5 million, which reflects an increase of \$10.8 million compared to June 30, 2020, for contributions made and reinvested earnings to increase the endowment.

During fiscal year 2020, restricted nonexpendable net position was \$360.7 million, which reflects an increase of \$16.8 million compared to June 30, 2019, for contributions made and reinvested earnings to increase the endowment.

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

The statements of revenues, expenses, and changes in net position present the Foundation's operating and nonoperating revenues, expenses, and contributions to permanent endowments for a given fiscal year. GASB Statement No. 35 categorizes revenues and expenses as either operating or nonoperating. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid, with the exception of revenue associated with permanent endowment gifts, which is recognized when all eligibility criteria are met.

University of South Florida Foundation, Inc.

Management's Discussion and Analysis (Unaudited) (continued)

June 30, 2021 and 2020

The statements of revenues, expenses, and changes in net position present the Foundation's result of operations. A condensed summary of the Foundation's changes in net position for the fiscal years ended June 30, 2021, 2020, and 2019 is as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating Revenues:			
Contributions	\$ 51,301,532	\$ 54,864,061	\$ 51,380,132
Investment income, net	192,303,003	31,322,865	33,207,950
Other income	2,472,726	2,489,419	2,517,287
Total Operating Revenues	<u>246,077,261</u>	<u>88,676,345</u>	<u>87,105,369</u>
Less operating expenses	<u>71,475,890</u>	<u>69,387,525</u>	<u>76,231,395</u>
Operating Gain	<u>174,601,371</u>	<u>19,288,820</u>	<u>10,873,974</u>
Nonoperating Revenues:			
University support	<u>13,209,335</u>	<u>16,283,602</u>	<u>13,233,048</u>
Nonoperating Revenues	<u>13,209,335</u>	<u>16,283,602</u>	<u>13,233,048</u>
Income before endowment contributions	187,810,706	35,572,422	24,107,022
Endowment Contributions:			
Contributions to endowments	<u>13,365,254</u>	<u>15,700,782</u>	<u>9,535,122</u>
Increase in Net Position	201,175,960	51,273,204	33,642,144
Net position, beginning of the year	<u>688,054,452</u>	<u>636,781,248</u>	<u>603,139,104</u>
Net position, end of the year	<u>\$ 889,230,412</u>	<u>\$ 688,054,452</u>	<u>\$ 636,781,248</u>

University of South Florida Foundation, Inc.

Management's Discussion and Analysis (Unaudited) (continued)

June 30, 2021 and 2020

Operating Revenues

Total operating revenues for fiscal year 2021 of \$246.1 million includes recognizable expendable charitable gifts and contributions, investment earnings, and other income from fundraising activities. Contributions were \$51.3 million and represent 20.8% of total operating revenues; this reflects a decrease of \$3.6 million from 2020, due primarily to large contributions received in 2020 for several facility construction projects and a gift to establish a new academic center. Investment income, consisting primarily of returns on the Foundation's endowment and operating investment portfolios, was \$192.3 million representing 78.1% of total operating income. The Foundation uses a balanced and diversified approach to its asset allocation within a stated policy. In any one year, certain components of the portfolios may perform better than others. During fiscal year 2021, U.S. and non-U.S. equities contributed positively to returns due to substantial market performance. Additionally, market value write-ups and exit activity from alternative investments contributed to positive fiscal year results.

Total operating revenues for fiscal year 2020 of \$88.7 million includes recognizable expendable charitable gifts and contributions, investment earnings, and other income from fundraising activities. Contributions were \$54.8 million and represent 61.8% of total operating revenues; this reflects an increase of \$3.5 million over 2019, due primarily to contributions recognized in 2020 for several facility construction projects and a gift to establish a new academic center. Investment income, consisting primarily of returns on the Foundation's endowment and operating investment portfolios, was \$31.3 million representing 35.2% of total operating income. The Foundation uses a balanced and diversified approach to its asset allocation within a stated policy. In any one year, certain components of the portfolios may perform better than others. During fiscal year 2020, U.S. and non-U.S. equities contributed positively to returns, despite significant market volatility due to the coronavirus ("COVID-19") crisis resulting in a decrease of \$1.9 million compared to fiscal year 2019.

Operating Expenses

Operating expenses consist primarily of program service expenses made to or on behalf of the University of expendable contributions and accumulated endowment dividend distributions. Operating expenses were higher in fiscal year 2021 and fiscal year 2019, as compared to fiscal year 2020, due to the transfer of funds to the University for facility improvement and construction projects during fiscal year 2019 and higher expenses for salaries and independent contractors in 2021 as University operations began to normalize from the effects of COVID-19 on business activities.

University of South Florida Foundation, Inc.

Management's Discussion and Analysis (Unaudited) (continued)

June 30, 2021 and 2020

Nonoperating Revenues

Nonoperating revenues of \$13.2 million for fiscal year 2021, \$16.3 million for fiscal year 2020, and \$13.2 million for fiscal year 2019, consist primarily of in-kind support for salaries of University employees dedicated to the advancement efforts of the Foundation on behalf of the University. The corresponding expenses are included in the operating expense section of the statements of revenues, expenses, and changes in net position. In-kind salary support was level in fiscal years 2021, 2020, and 2019; however, during fiscal year 2020 a transfer from the USF Financing Corporation of \$2.2 million was received to support strategic initiatives of the University.

Endowments

The Foundation places a high priority on increasing the gifts to and the return on the endowment. The timing of these gifts may be unpredictable and may vary significantly from year to year. Endowed gifts received during 2021 and 2019 were lower than in fiscal year 2020, as a result of planned gift distributions to support scholarships.

Capital Assets and Long-term Debt Activity

The Foundation has \$14.6 million of capital assets, included in noncurrent assets on the accompanying statement of net position as of June 30, 2021 as compared to \$14.8 million as of June 30, 2020. These balances are net of accumulated depreciation of \$1.3 million and \$1.1 million, respectively.

At June 30, 2020, the Foundation had \$14.8 million of capital assets, included in noncurrent assets on the accompanying statement of net position, as compared to \$14.6 million as of June 30, 2019. These balances are net of accumulated depreciation of \$1.1 million and \$1.0 million, respectively.

The capital assets balance at June 30, 2021 is comprised of 45% land totaling \$6.6 million, 28% buildings and equipment of \$4.1 million, and 27% works of art totaling \$3.9 million.

The capital assets balance at June 30, 2020 is comprised of 45% land totaling \$6.6 million, 28% buildings and equipment of \$4.2 million, and 27% works of art totaling \$3.9 million. During fiscal year 2020, changes in capital assets related to transfers received from the University for the development and improvement of property held by the Foundation in the amount of \$0.1 million. A detailed schedule of capital assets and related activity can be found in Note 6 of the accompanying notes to financial statements.

University of South Florida Foundation, Inc.

Management's Discussion and Analysis (Unaudited) (continued)

June 30, 2021 and 2020

At June 30, 2021, the Foundation had \$3.9 million in debt outstanding compared to \$4.3 million at June 30, 2020. During fiscal year 2021, the Foundation reduced debt by principal payments on its mortgage.

At June 30, 2020, the Foundation had \$4.3 million in debt outstanding compared to \$4.7 million at June 30, 2019. During fiscal year 2020, the Foundation reduced debt by principal payments on its mortgage. Additional information on the Foundation's long-term debt obligations can be found in Note 10 of the accompanying notes to financial statements.

Economic Factors that Will Affect the Future

Factors that can significantly impact future periods include the state of the overall economy, recent tax law changes, and the financial markets, which impact charitable giving and the value of investments. The Foundation monitors the status of the economy, its impact on overall giving, contributions receivable and the investment pools.

Charitable support is an important resource to the University providing a direct impact on enhancing University programs through annual contributions and endowments. In the future, due to the growth in the endowment from new gifts and investment returns, expenditure of funds from the endowment payout to benefit the University is anticipated to increase. The COVID-19 global pandemic is anticipated to continue to have far reaching and devastating economic impacts in the U.S. and globally. Despite five official recessions since 1980, philanthropy overall has increased year to year. The University has initiated several efforts related to COVID-19 to provide aid to support students adversely impacted by the crisis and to increase efforts in research and the pandemic relief response. The University also has several significant facility enhancement projects underway in Academic areas, Athletics and USF Health; therefore, a higher rate of incoming expendable gifts to support these initiatives is expected.

Endowment pledges totaling approximately \$16.0 million and \$6.8 million as of June 30, 2021 and 2020, respectively, have not be recorded in the financial statements as these commitments will be recognized when the resources are received and all eligibility requirements have been met.

The Foundation participates in the State of Florida Major Gifts Challenge Grant Program (the "Program"). The Program has been temporarily suspended for donations received on or after June 30, 2011. Existing eligible donations received on or before June 29, 2011 remain eligible for future matching funds when appropriated by the state of Florida. As of June 30, 2021, the Foundation submitted matching requests totaling \$25.71 million to the state of Florida. The program may be restarted by the state after \$200 million of the backlog for the state match programs has been funded. When received, state matching grants will benefit the endowment. Therefore, the \$25.71 million has not been recorded in the statement of net position.

University of South Florida Foundation, Inc.

Management's Discussion and Analysis (Unaudited) (continued)

June 30, 2021 and 2020

Management is not aware of any other factors within management's control that would have a significant impact on future periods.

Requests for Information

Questions concerning information provided in the MD&A or other required supplemental information and financial statements and notes thereto, or requests for additional financial information should be addressed to: Chief Financial Officer, University of South Florida Foundation, Inc., 4202 East Fowler Avenue, ALC100, Tampa, Florida 33620 or by calling (813) 974-1801.

University of South Florida Foundation, Inc.

Statements of Net Position

June 30, 2021 and 2020

	<u>2021</u>	<u>As Restated 2020</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 550,544	\$ 4,924,380
Investments	131,563,857	107,696,593
Contributions receivable, net	10,110,354	10,209,712
Other receivables	544,395	665,565
Total Current Assets	<u>142,769,150</u>	<u>123,496,250</u>
Noncurrent Assets:		
Investments	709,049,806	520,095,232
Contributions receivable, net of current portion	33,158,354	32,423,865
Beneficial interest assets	23,944,033	20,526,770
Due from the University of South Florida	5,857,801	5,765,315
Other receivables, net of current portion	265,794	750,000
Land	6,620,414	6,620,414
Buildings, equipment, and other, net	4,105,142	4,223,941
Works of art	3,907,176	3,942,296
Total Noncurrent Assets	<u>786,908,520</u>	<u>594,347,833</u>
Total Assets	<u>929,677,670</u>	<u>717,844,083</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	408,216	1,052,874
Amounts due to third party beneficiaries	310,071	-
Due to the University of South Florida	8,076,600	1,490,308
Mortgage payable	401,830	391,431
Life beneficiaries obligations	226,727	155,427
Total Current Liabilities	<u>9,423,444</u>	<u>3,090,040</u>
Noncurrent Liabilities:		
Mortgage payable, net of current portion	3,539,591	3,941,421
Amounts due to third party beneficiaries, net of current portion	-	123,352
Life beneficiaries obligations, net of current portion	1,311,692	886,097
Total Noncurrent Liabilities	<u>4,851,283</u>	<u>4,950,870</u>
Total Liabilities	<u>14,274,727</u>	<u>8,040,910</u>

See accompanying notes to the financial statements

University of South Florida Foundation, Inc.

Statements of Net Position (continued)

June 30, 2021 and 2020

	2021	As Restated 2020
	<u>2021</u>	<u>2020</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from remainder interest assets	\$ 2,228,498	\$ 1,221,951
Deferred inflows from beneficial interest assets	23,944,033	20,526,770
Total Deferred Inflows	<u>26,172,531</u>	<u>21,748,721</u>
NET POSITION		
Net investment in capital assets	10,691,311	10,453,799
Restricted:		
Expendable		
Endowment appreciation and accumulated earnings	376,018,566	202,517,518
Donor restricted gift funds	105,674,608	96,125,076
Nonexpendable endowments	371,482,143	360,710,543
Unrestricted	25,363,784	18,247,516
Total Net Position	<u>\$889,230,412</u>	<u>\$688,054,452</u>

University of South Florida Foundation, Inc.

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating revenues:		
Contributions	\$ 51,301,532	\$ 54,864,061
Fundraising activities and other income	2,472,726	2,489,419
Interest earnings	13,024,888	9,838,542
Net investment gain	179,278,115	21,484,323
Total operating revenues	<u>246,077,261</u>	<u>88,676,345</u>
Operating expenses:		
Program service support	52,816,838	50,945,239
Fundraising support	9,633,397	9,625,616
Operating costs	9,025,655	8,816,670
Total operating expenses	<u>71,475,890</u>	<u>69,387,525</u>
Operating income	<u>174,601,371</u>	<u>19,288,820</u>
Nonoperating revenues:		
University support	13,209,335	16,283,602
Total nonoperating revenues	<u>13,209,335</u>	<u>16,283,602</u>
Income before endowment contributions	187,810,706	35,572,422
Endowment contributions:		
Contributions to permanent endowments	13,365,254	15,700,782
Increase in net position	201,175,960	51,273,204
Net position, beginning of year	688,054,452	636,781,248
Net position, end of year	<u>\$889,230,412</u>	<u>\$688,054,452</u>

University of South Florida Foundation, Inc.

Statements of Cash Flows

Years Ended June 30, 2021 and 2020

	2021	As Restated 2020
Cash flows from operating activities:		
Receipts from contributions	\$ 50,666,400	\$ 37,920,148
Receipts from fundraising activities and other sources	3,286,037	2,309,904
Payments for University program support	(25,372,567)	(32,585,995)
Payments for fundraising support	(662,338)	(1,106,951)
Payments for management and operating activities	(1,575,956)	(2,369,870)
Payments to the University and DSOs for salaries and benefits	(24,419,524)	(19,432,221)
Net cash flows from operating activities	<u>1,922,052</u>	<u>(15,264,985)</u>
Cash flows from investing activities:		
Purchases of investments	(480,936,673)	(213,886,389)
Proceeds from sales and maturities of investments	448,577,851	207,382,212
Receipts from investment income, net	13,024,888	9,838,542
Principal payment on loan to DSO	400,000	400,000
Net cash flows from investing activities	<u>(18,933,934)</u>	<u>3,734,365</u>
Cash flows from capital and related financing activities:		
Principal paid on mortgage	(391,431)	(381,300)
Interest paid on mortgage	(109,050)	(119,181)
Net cash flows from capital and related financing activities	<u>(500,481)</u>	<u>(500,481)</u>
Cash flows from noncapital financing activities:		
Endowment contributions received for other than capital purposes	13,365,254	15,700,782
Beneficiary payments	(226,727)	(155,427)
Net cash flows from noncapital financing activities	<u>13,138,527</u>	<u>15,545,355</u>
Change in cash and cash equivalents	(4,373,836)	3,514,254
Cash and cash equivalents, beginning of year	4,924,380	1,410,126
Cash and cash equivalents, end of year	<u>\$ 550,544</u>	<u>\$ 4,924,380</u>
Supplemental disclosure of noncash related investing activities:		
Unrealized gain (loss) on investments	\$133,456,443	\$ (11,092,455)
Contributed capital assets	<u>\$ -</u>	<u>\$ 112,947</u>

See accompanying notes to the financial statements

University of South Florida Foundation, Inc.

Statements of Cash Flows (continued)

Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of operating income to net cash flows from operating activities:		
Operating income	\$174,601,371	\$ 19,288,820
Adjustments to reconcile operating income to net cash flows from operating activities:		
Change in the provision for losses and discounts on contributions receivable	(1,033,810)	(672,950)
Depreciation	118,799	112,546
Noncash support from University	13,209,335	16,170,655
Net realized and unrealized gains on investments	(179,278,115)	(21,484,323)
Investment income, net	(13,024,888)	(9,838,542)
Interest expense	109,050	119,181
Gift of books and art objects	35,120	(145,228)
Changes in operating assets and liabilities:		
Contributions receivable	398,679	(18,470,964)
Accrued investment receivables and other receivables, net	813,312	232,662
Accounts payable and accrued expenses	(644,658)	83,410
Remainder interest trust	-	(700,638)
Amounts due to third party beneficiaries	124,051	288,461
Due to the University of South Florida, net	6,493,806	(248,075)
Net cash from operating activities	<u>\$ 1,922,052</u>	<u>\$ (15,264,985)</u>

University of South Florida Foundation, Inc.

Statements of Fiduciary Net Position

Years Ended June 30, 2021 and 2020

	<u>Custodial Funds</u>	
	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 2,425	\$ 26,858
Current investments	702,643	542,933
Noncurrent investments	46,802,953	35,061,146
Total Assets	47,508,021	35,630,937
Liabilities		
Life beneficiaries obligations	34,391	-
Total Liabilities	34,391	-
Deferred Inflows of Resources		
Deferred inflows from remainder interest assets	16,213	-
Total Deferred Inflows	16,213	-
Net Position		
Net position restricted for USF Research Foundation	36,913,222	27,440,215
Net position restricted for the USF Alumni Association	10,544,195	8,190,722
Total Net Position	\$ 47,457,417	\$ 35,630,937

University of South Florida Foundation, Inc.

Statements of Changes in Fiduciary Net Position

Years Ended June 30, 2021 and 2020

	<u>Custodial Funds</u>	
	<u>2021</u>	<u>2020</u>
Additions:		
Interest earnings	\$ 566,837	\$ 1,041,219
Net increase in the fair value of investments	11,905,593	785,100
USF Alumni Association program revenue	3,968,596	3,252,065
Total Additions	<u>16,441,026</u>	<u>5,078,384</u>
Deductions:		
Administrative fees	(644,364)	(594,234)
USF Alumni Association program expenses	(3,970,182)	(3,144,852)
Total Deductions	<u>(4,614,546)</u>	<u>(3,739,086)</u>
Net increase in fiducary net position	11,826,480	1,339,298
Beginning net position	<u>35,630,937</u>	<u>34,291,639</u>
Ending Net Position	<u>\$ 47,457,417</u>	<u>\$ 35,630,937</u>

University of South Florida Foundation, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

1. Nature of Organization and Summary of Significant Accounting Policies

Organization

The University of South Florida Foundation, Inc. (the “Foundation”) is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code (“IRC”) and is exempt from federal and state income tax pursuant to section 501(a) of the IRC except for income from activities unrelated to its principal function. Formed in 1969, the Foundation operates as a Direct Support Organization (“DSO”) for the University of South Florida (the “University” or “USF”) as provided for in Section 1004.28 of the Florida Statutes and serves as the official legal conduit for the solicitation, acceptance, investment, and administration of charitable contributions in support of the activities and programs of the University, which includes the colleges, campuses, health, athletics, and other appropriate University-related units.

Reporting Entity

The Foundation is a component unit of the University. Accordingly, its financial statements are included in the financial statements of the University of South Florida as a discretely presented component unit.

Blended Component Unit

The Foundation formed the USF Real Estate Foundation, L.L.C. (the “LLC”) to hold contributed real estate. The Foundation is the sole member and manager of the LLC. Further, the Foundation is able to impose its will on the LLC by influencing its activities and is legally entitled to or can otherwise access the LLC’s resources. Because the Foundation is financially accountable for the LLC, the LLC is considered a component unit of the Foundation. As the LLC is organized as a not-for-profit for which the Foundation is the sole member, its activities are combined into the total of the Foundation. The LLC is a single-member limited liability corporation and is structured as a disregarded entity for U.S. federal, state, and local income tax purposes. Accordingly, no provision for income taxes is made in the financial statements.

Basis of Accounting

The accompanying financial statements have been prepared using accounting principles generally accepted in the United States of America (“U.S. GAAP”), including all effective applicable statements of the Government Accounting Standards Board (“GASB”). The statements are prepared using the economic resources measurement focus and the accrual basis of accounting. To help ensure observance of limitation and restrictions placed on the use of resources, the accounts of the 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 purpose. For reporting purposes, these funds are combined into one column in the form of an enterprise fund.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

1. Nature of Organization and Summary of Significant Accounting Policies (continued)

The Foundation's financial statements are presented in the form of an enterprise fund and fiduciary custodial funds.

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 statements of fiduciary net position and additions and deductions on the statements of changes in fiduciary net position.

Custodial funds include the USF Alumni Association and the USF Research Foundation.

The USF Alumni Association is a legally separate 501(c)(3) entity organized to maintain and enhance a mutually beneficial relationship between the University and its alumni. The USF Alumni Association had designated a portion of their total investment to function as an endowment. The Foundation, as the financial fiduciary for these funds, removes the USF Alumni Association's equity interest in Foundation assets and reports the USF Alumni Association's cash and investments on the fiduciary fund statements of net position.

The USF Research Foundation is a legally separate 501(c)(3) entity organized to promote, encourage and enhance the research activities at the University. The USF Research Foundation board has designated a portion of their total investment to function as an endowment. The Foundation, as the financial fiduciary for these funds, removes the USF Research Foundation's equity interest in Foundation assets and reports the USF Research Foundation's cash and investments on the fiduciary fund statements of net position.

Basis of Presentation

The net position of the Foundation is reported in three categories as follows:

- Net Investment in Capital Assets – Represents funds that consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to and expended on the acquisition, construction, or improvement of those assets net of any related unspent debt proceeds.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

1. Nature of Organization and Summary of Significant Accounting Policies (continued)

- Restricted – Includes *Expendable funds* and *Nonexpendable endowments*.
 - *Expendable*
 - *Endowment appreciation and accumulated earnings* is comprised of net accumulated appreciation on endowments and net accumulated endowment spending allocations.
 - *Restricted donor gift funds* represents funds that are subject to external donor or grantor restrictions to benefit various programs at the University and that can be fulfilled by the actions of the Foundation pursuant to the restriction or that expire by the passage of time.
 - *Nonexpendable Endowments* – Represents the nonexpendable portion (corpus) of endowment funds that are subject to donor or grantor restrictions for the benefit of various programs at the University. These programs include student scholarships, endowed chairs, professorships, facility improvements, and research funding. The corpus of the permanent endowments are retained and reported in nonexpendable endowments, while the net earnings or losses on endowment funds are included in expendable funds available for expenditure.
- Unrestricted – Represents funds that are not subject to external restrictions or are invested in capital assets and are available for carrying out the Foundation's objectives.

As a general practice, the Foundation applies restricted resources when an expense relating to the purpose restriction imposed by the outside party is incurred before unrestricted resources are used.

Cash and Cash Equivalents

The Foundation considers all highly-liquid investments with original maturities of three months or less when purchased to be cash and cash equivalents except for balances included in the pooled investments.

Investments

The Foundation has created two pools for the investment of funds. The endowment pool employs a long-term investment strategy ideal for the perpetual nature of endowments. The operating pool was created to provide liquidity and be a source of funds to meet planned or anticipated expenses for current operations. Investments are carried at fair value based on published quotations from the national exchanges or over-the-counter market, or by utilizing net asset value as a practical expedient, except for alternative investments, which are discussed further in Note 3.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

1. Nature of Organization and Summary of Significant Accounting Policies (continued)

Gifts of investments are recorded at their fair value (based upon quotations or appraisals) at the date of gift. Except for investments that are not readily marketable or are held separately for specific reasons, all gifts of investments are liquidated and invested in accordance with the donor's intent.

Gifts that are invested in the endowment pool are assigned units of participation in the pool based upon their market value on the date of gift and the most recently determined unit market value for the existing units of participation. Subsequent allocations of annual income of the endowment pool are based upon the number of units of participation. Distributions are based upon the spending policy approved by the Foundation Board of Directors and follow the total return concept of utilizing both income and realized and unrealized gains. The market value of the units of participation is calculated monthly.

Investment earnings (including interest and dividends and realized and unrealized gains and losses) is reflected in the accompanying statements of revenues, expenses, and changes in net position. Purchases and sales of investments are recorded on a trade-date basis. The cost of investments sold is determined using the specific-identification method.

Charitable gift annuity assets (beneficial interest assets) are invested and recorded at fair value. In accordance with Section 627.481 of the Florida Statutes, the charitable gift annuity reserve fund must maintain assets at least equal to the liability on its outstanding annuity agreements, plus 10%. Investment of the gift annuity reserve fund is limited to no more than 50% equities and no more than 10% may be invested in any one stock or fund.

Investments classified as noncurrent represent the corpus and accumulated gains of donor restricted contributions and investments not expected to be used during the Foundation's next fiscal year.

The Foundation provides investment management of funds to the University, its DSOs, and component units to provide benefits from economies of scale, active professional oversight, and broad diversification over many asset classes. Organizations participating in this program may be invested in the Foundation's operating and/or endowment investment pools.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

1. Nature of Organization and Summary of Significant Accounting Policies (continued)

Contributions Receivable

Contributions receivable represent written unconditional promises to give by donors. Contributions receivable, other than endowment contributions receivable, are recognized as contribution revenue in the period pledged as long as they are verifiable, measurable, probable of collection, and they meet all the eligibility requirements specified by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Endowment gifts are recognized as contributions to permanent endowment funds at the time payment is received. Contributions receivable, less an allowance for uncollectible accounts, are reported at fair value determined using the discounted present value of expected cash flows. The allowance is made for uncollectible contributions receivable based upon the Foundation's analysis of past collection experience and other judgmental factors. The allowance captures the risk premium to bring the contributions receivable balance to a risk-adjusted expected cash flow. The discount rate applied to the risk-adjusted cash flow is based on U.S. Treasury yields appropriate for the expected terms of the promise to give. For the year ended June 30, 2021, discount rates ranging from 0.07% to 1.21% were used.

Beneficial Interest in Non-Trustee Split-Interest Agreements

The Foundation receives financial interests in irrevocable split-interest agreements where the assets are invested and administered by outside trustees. The Foundation records the value of this interest as the net of the fair value of the underlying investments offset by the present value of the estimated future beneficiary payments over the expected life of the life beneficiaries, in accordance with GASB Statement No. 81, *Irrevocable Split-Interest Agreements*.

Capital Assets

Buildings, property, and equipment are stated at cost, if purchased, and at acquisition value upon receipt, if acquired by gift. Upon retirement or disposition, the asset's carrying value and related accumulated depreciation are relieved and the resulting gain or loss is included in the statements of revenues, expenses, and changes in net position. The Foundation transfers gifts and purchased property to the University for capitalization, asset management, and insurance purposes. These transfers are reflected on the statements of revenues, expenses, and changes in net position as program services expenses.

The Foundation depreciates buildings and equipment on a straight-line basis over their estimated useful lives. Useful lives range from 3 to 20 years for equipment, 15 to 20 years for building improvements, and 30 to 40 years for buildings.

Other property consists primarily of land and is not subject to depreciation.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

1. Nature of Organization and Summary of Significant Accounting Policies (continued)

The Foundation evaluates the recoverability of its land, buildings, and equipment whenever adverse events or changes in the business climate indicate that the expected undiscounted future cash flows from the related asset may be less than the carrying value. If the net book value of the related asset exceeds the undiscounted future cash flows of the asset, the carrying amount would be reduced to the present value of its expected future cash flows and an impairment loss would be recognized. No such impairment was recorded for the years ended June 30, 2021 and 2020.

Deferred Inflow of Resources from Split-Interest Agreements

Deferred inflows of resources represent an acquisition of net position that applies to a future period. The Foundation classifies changes in irrevocable split-interest agreements (remainder interest assets and beneficial interest assets) as deferred inflows of resources. These amounts will be recognized as revenue upon the distribution or termination of the split-interest agreements.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and deferred inflows of resources and disclosure of contingent assets, liabilities, and deferred inflows of resources at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the IRC as an organization described in Section 501(c)(3). However, the Foundation is subject to income tax on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purpose for which it is granted exemption. The Foundation is classified as an organization operated for the benefit of a college or university owned or operated by a governmental unit described in Section 170(b)(1)(A)(iv).

Classification of Current and Noncurrent Assets and Liabilities

The Foundation considers assets to be current that can reasonably be expected, as part of normal business operations, to be converted to cash and be available for liquidation within 12 months of the statements of net position date. The Foundation considers liabilities to be current that reasonably can be expected, as part of normal business operations, to be liquidated within 12 months of the statements of net position date. All other assets and liabilities are considered to be noncurrent.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

1. Nature of Organization and Summary of Significant Accounting Policies (continued)

Operating and Nonoperating Activities

Operating revenues and expenses represent ongoing activities of the Foundation, as well as ongoing activities that are in support of the University's programs. Operating activities relate to the Foundation's principal function, which is to solicit, receive, hold, invest, and administer charitable contributions for the benefit of the University. Nonoperating revenues include certain revenue sources that provide additional funding not included in operating revenues which include University related support and endowment contributions.

Revenue Recognition

Contributions of cash, investment securities, or contributions receivable are recognized at fair value when all eligibility requirements have been met and are reported as increases in net position, with the exception of pledges to the endowment which are recognized when funds are received. Land, buildings, and equipment donated to the Foundation are recorded at their acquisition values at the dates of donation. These amounts are also reflected within program service expenses on the accompanying statements of revenues, expenses, and changes in net position for the transfer of the in-kind contributions to the University or maintained on the statements of net position as real estate held for resale when appropriate. Conditional promises to give are not recognized until the condition has been met. Additions to endowments and other trusts are not recognized until the resources are received and all eligibility requirements have been met.

Change in Accounting Principles

During the year ended June 30, 2021, the Foundation adopted new accounting guidance by implementing the provisions of GASB No. 84, *Fiduciary Activities*, which establishes criteria for identifying and reporting fiduciary activities. The implementation of this statement has resulted in changing the presentation of the financial statements by removing fiduciary fund assets and associated liabilities from Foundation's statement of net position. As the Foundation previously recognized a liability for fiduciary fund assets, the restatement impacts total assets and total liabilities with no net impact on net position.

	<u>2020</u>
Total assets, June 30, 2020, as previously reported	<u>\$753,475,020</u>
Change in accounting principles	<u>(35,630,937)</u>
Total assets, June 30, 2020, as restated	<u>\$717,844,083</u>
	<u>2020</u>
Total liabilities, June 30, 2020, as previously reported	<u>\$ 43,671,847</u>
Change in accounting principles	<u>(35,630,937)</u>
Total liabilities, June 30, 2020, as restated	<u>\$ 8,040,910</u>

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

1. Nature of Organization and Summary of Significant Accounting Policies (continued)

As the fiduciary funds were not previously reported, the restatement impacts total assets, total liabilities, and net position below.

	<u>2020</u>
Total fiduciary assets, June 30, 2020, as previously reported	\$ -
Change in accounting principles	<u>35,630,937</u>
Total fiduciary assets, June 30, 2020, as restated	<u>\$ 35,630,937</u>
	<u>2020</u>
Total fiduciary net position, June 30, 2020, as previously reported	\$ -
Change in accounting principles	<u>35,630,937</u>
Total fiduciary net position, June 30, 2020, as restated	<u>\$ 35,630,937</u>

2. Cash and Cash Equivalents

The amount recorded for cash and cash equivalents of the Foundation's deposits held in operating bank accounts was \$550,544 and \$4,924,380 at June 30, 2021 and 2020, respectively.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Foundation will not be able to recover deposits. The Foundation mitigates custodial credit risk by holding non-invested cash in a financial institution covered by the Federal Deposit Insurance Corporation.

3. Investments

The Foundation's investment policy allows for investments in domestic equities, international equities, fixed income, real assets, and alternatives. For equity investments, the investment policy requires that the investments be diversified by sector and industry and proportionally allocated to small- and large-capitalization stocks. International equity investments are to be diversified by country exposure, covering both developed and emerging markets. For fixed income instruments, the Foundation's investment policy allows for investments to be broadly diversified by issuer, sector, quality, and maturity. For alternatives instruments, the Foundation's investment policy allows for private equity, absolute return (hedge funds), real assets, and commodities.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

3. Investments (continued)

Investments are carried at fair value and consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
Current investments:		
Money market funds	\$ 41,040,831	\$ 28,254,889
Fixed income securities	90,094,145	79,336,829
Domestic securities	1,131,524	647,808
Total current investments held by the reporting entity	<u>132,266,500</u>	<u>108,239,526</u>
Less: Fiduciary Fund equity interest in pooled current investments	<u>702,643</u>	<u>542,933</u>
Total current pooled investments of the Foundation	<u>131,563,857</u>	<u>107,696,593</u>
Noncurrent investments:		
Money market funds	3,306,319	4,544,549
Fixed income	125,217,119	69,993,569
Domestic securities	274,633,111	207,661,496
International equities	196,549,761	148,956,809
Real asset equities	28,750,428	16,489,769
Private equity	61,893,548	34,661,196
Fixed income partnership	23,825,033	37,787,765
Real asset partnership	41,677,440	35,061,225
Total noncurrent investments held by the reporting entity	<u>755,852,759</u>	<u>555,156,378</u>
Less: Fiduciary Fund equity interest in pooled noncurrent investments	<u>46,802,953</u>	<u>35,061,146</u>
Total noncurrent investments of the Foundation	<u>709,049,806</u>	<u>520,095,232</u>
Total investments	<u>888,119,259</u>	<u>663,395,904</u>
Less: Fiduciary Fund equity interest in total pooled investments	<u>47,505,596</u>	<u>35,604,079</u>
Total pooled investments of the Foundation	<u>\$840,613,663</u>	<u>\$ 627,791,825</u>

The Foundation's pooled investments reported on the statement of financial position are reduced by the equity interest of fiduciary funds managed by the Foundation. The Foundation measures amounts held on behalf of fiduciary funds at fair value on a recurring basis. The fair value of these underlying assets are held in short and long-term investments presented in the above tables for the years ended June 30, 2021 and 2020. See fiduciary fund statement of net position for additional information.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

3. Investments (continued)

The following schedule provides the components of the realized and unrealized gains and losses on investments, net are as follows at June 30:

	<u>2021</u>	<u>2020</u>
Realized gains on investments, net	\$ 48,794,759	\$ 33,959,569
Unrealized gains (losses) investments, net	<u>142,388,949</u>	<u>(11,690,146)</u>
Total realized and unrealized gains on investments, net of assets held by the reporting entity	\$191,183,708	\$ 22,269,423
Less: realized gains on investments for fiduciary funds	(2,973,087)	(1,381,791)
Less: unrealized (gains) losses on investments for fiduciary fund	(8,932,506)	596,691
Total realized and unrealized gains on investments, net for the Foundation	<u>\$179,278,115</u>	<u>\$ 21,484,323</u>

Investment Risk Factors

There are many factors that can affect the value of investments. In addition to market risk, credit risk, custodial credit risk, concentration of credit risk, and interest rate risk may affect both equity and fixed-income securities. Equity securities are affected by such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed-income securities are particularly sensitive to credit risk, inflation, and changes in interest rates.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. To mitigate custodial credit risk, the Foundation requires that all securities in separately managed accounts be held by a well-capitalized and financially secure third party custodian bank. The Foundation monitors the financial viability of its custodian bank on a regular basis.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation's investment policy mitigates credit risk by limiting single issuer concentration (excluding U.S. government and agencies) to no more than 5% of the value of the fixed income composite.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

3. Investments (continued)

The following schedule represents the ratings of the Foundation's debt-type investments as of June 30, 2021, using nationally recognized statistical ratings quality organizations:

Credit Rating	Domestic Fixed Income	International Fixed Income	Total Debt Securities
Government Agency	\$ 54,995,662	\$ -	\$ 54,995,662
AAA	17,791,373	-	17,791,373
AA	20,039,439	-	20,039,439
A	12,016,401	72,497	12,088,898
BBB	28,054,488	7,014,893	35,069,381
BB	23,897,838	7,870,374	31,768,212
B	15,338,268	4,499,366	19,837,634
Less than B rated	3,341,674	836,865	4,178,539
Not rated	41,038,840	2,328,319	43,367,159
Total Fixed Income Investments			\$ 239,136,297

The following schedule represents the ratings of the Foundation's debt-type investments as of June 30, 2020, using nationally recognized statistical ratings quality organizations:

Credit Rating	Domestic Fixed Income	International Fixed Income	Total Debt Securities
Government Agency	\$ 52,975,861	\$ -	\$ 52,975,861
AAA	9,715,605	-	9,715,605
AA	7,518,210	52,647	7,570,857
A	18,268,378	116,805	18,385,183
BBB	27,709,598	1,393,446	29,103,044
BB	22,050,667	2,781,957	24,832,624
B	12,531,584	4,805,498	17,337,082
Less than B rated	1,301,768	2,025,186	3,326,954
Not rated	23,869,308	1,645	23,870,953
Total Fixed Income Investments			\$ 187,118,163

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Foundation's investment policy requires diversification in its asset allocation sufficient to reduce the potential a single security, single sector of securities, or single investment manager having a disproportionate or significant impact on the portfolio.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

3. Investments (continued)

Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investment, and is measured by duration. The Foundation mitigates interest rate risk by allocating to shorter duration strategies in its operating pool, as stipulated by the investment policy. The endowment investment policy requires that duration remain within 1.5 years relative to the asset class benchmark.

The effective duration (in years) of the Foundation's fixed-income securities at June 30, 2021 is as follows:

Average Duration	Domestic Fixed Income	International Fixed Income	2021 Fair Value
Less than one year	\$ 40,399,853	\$ -	\$ 40,399,853
One to five years	176,114,129	22,622,315	198,736,444
			<u>\$ 239,136,297</u>

The effective duration (in years) of the Foundation's fixed-income securities at June 30, 2020 is as follows:

Average Duration	Domestic Fixed Income	International Fixed Income	2020 Fair Value
Less than one year	\$ 27,745,837	\$ 11,177,183	\$ 38,923,020
One to five years	148,195,143	-	148,195,143
			<u>\$ 187,118,163</u>

Foreign currency risk is the risk that changes in exchange rates between the U.S. dollar and foreign currencies could adversely affect an investment's fair value. As of June 30, 2021 and 2020, the Foundation did not have any direct investments in equity or fixed income investments subject to this risk. As of June 30, 2021 and 2020, the Foundation's assets were held in U.S. currency, the currency risk on international and global assets is reflected in investment performance.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

3. Investments (continued)

Alternative investments consist of marketable alternatives (hedge funds, including absolute return and long/short equity strategies), limited partnerships, private equity, venture capital, and private real estate funds. Alternative investments include ownership interests in a wide variety of vehicles including partnerships and corporations that may be domiciled in the United States or offshore. The underlying investments may be leveraged to enhance the total investment return and may include financial assets such as marketable securities, nonmarketable securities, derivatives, and other synthetic and structured instruments as well as tangible and intangible assets. Generally, these alternative investments do not have a ready market and ownership interests in these investment vehicles may not be traded without the approval of the general partner or fund management. These investments are subject to the risk generally associated with equities and fixed-income instruments, with additional risks to leverage and the lack of a ready market for acquisition or disposition of ownership interests. The investment risk of these investments without readily determinable values with respect to each underlying investment will be limited to the capital committed to it by the Foundation. The carrying value of alternative investments was \$126,453,293 and \$107,510,186 as of June 30, 2021 and 2020, respectively, which is reflected in investments in the accompanying statements of net position.

Fair Value Measurements

The Foundation categories its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. Fair value is defined in the accounting standards 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. Assets and liabilities reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial asset.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

3. Investments (continued)

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices that are observable for the asset and liability, either directly or indirectly.

Level 3 – Inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be developed based on the best information available in the circumstances.

The following valuation techniques and inputs were used to estimate the fair value of assets and liabilities carried at fair value on the statements of net position. There have been no changes to these techniques and inputs during the years ended June 30, 2021 and 2020:

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

Fixed Income – Included in the Level 1 category are fixed income investments. Level 1 fixed income investments consist of mutual funds invested in corporate and government bonds valued on quoted prices in an active market. Other fixed income investments consist of corporate, government, and mortgage bonds structured as a commingled fund. The fair value has been estimated using the net asset value (“NAV”) per share of the fund at year-end based on the current market value of each investment and reinvested investment income as a practical expedient. NAV is excluded from the valuation hierarchy.

Stock Investments – Included in both the Level 1 category are domestic and international equities. Level 1 stock investments are valued at quoted prices in an active market. Other stock investments are structured as commingled funds, and fair value has been estimated using NAV per share of the fund at year-end as a practical expedient. NAV is excluded from the valuation hierarchy. Their fair value is based on observable inputs, which include market prices for similar assets in the active market.

Partnership Investments – Included within endowment pooled investments in the accompanying statements of net position are a high yield bond fund, funds of funds, investments in private equity companies, and partnerships that do not have readily determinable values. The fair value of the Foundation's interest in these limited partnerships is based on capital account balances reported by the underlying partnerships, which is subject to management review and adjustment. This fair value is determined using NAV per percentage of ownership as a practical expedient. NAV is excluded from the valuation hierarchy. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

3. Investments (continued)

Beneficial Interests in Irrevocable Split-Interest Agreements – Beneficial interests are included in the Level 3 category and are made up of beneficial interests in perpetual trusts and charitable remainder trusts. The Foundation determines the value of these assets as measured by the fair value of the assets contributed to the trusts. For charitable remainder trusts, the income approach is utilized, and the trust assets are discounted to present value using the Internal Revenue Service (“IRS”) discount rate. The Foundation has assessed the interest rate used and no additional risk premium is added to this rate. This fair valuation is performed on an annual basis.

The following table presents the assets measured at fair value on a recurring basis on the statements of net position for the years ended June 30, 2021 and 2020, by the valuation hierarchy (as described above). Investments calculated using a NAV per share are listed separately for reconciliation to the balances on the statements of net position:

Description	Total	Fair Value Measurement at June 30, 2021			NAV
		Level 1	Level 2	Level 3	
Short-term investments:					
Money market funds	\$ 41,040,831	\$ 41,040,831	\$ -	\$ -	\$ -
Fixed income	90,094,145	41,674,482	-	-	48,419,663
Domestic equities	1,131,524	1,131,524	-	-	-
Total current investments	<u>\$132,266,500</u>	<u>\$ 83,846,837</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,419,663</u>
Long-term investments:					
Money market funds	\$ 3,306,319	\$ 3,306,319	\$ -	\$ -	\$ -
Fixed income	125,217,119	59,300,687	-	-	65,916,432
Stock investments:					
Domestic equities	274,633,111	152,490,885	-	-	122,142,226
International equities	196,549,761	36,105,090	-	-	160,444,671
Real asset equities	28,750,428	28,750,428	-	-	-
Partnership investments:					
Private equity	61,893,548	-	-	-	61,893,548
Fixed income	23,825,033	-	-	-	23,825,033
Real asset	41,677,440	-	-	-	41,677,440
Total noncurrent investments	<u>\$755,852,759</u>	<u>\$279,953,409</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 475,899,350</u>
Total investments	<u>\$888,119,259</u>	<u>\$363,800,246</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 524,319,013</u>
Fiduciary equity interest in total pooled investments	<u>\$(47,505,596)</u>				
Total pooled investment for the reporting entity	<u>\$840,613,663</u>				
Total beneficial interest assets	<u>\$ 23,944,033</u>	\$ -	\$ -	\$ 23,944,033	\$ -

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

3. Investments (continued)

Description	Fair Value Measurement at June 30, 2020				NAV
	Total	Level 1	Level 2	Level 3	
Short-term investments:					
Money market funds	\$ 28,254,889	\$ 28,254,889	\$ -	\$ -	\$ -
Fixed income	79,336,829	35,664,999	-	-	43,671,830
Domestic equities	647,808	647,808	-	-	-
Total current investments	<u>\$108,239,526</u>	<u>\$ 64,567,696</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43,671,830</u>
Long-term investments:					
Money market funds	\$ 4,544,549	\$ 4,544,549	\$ -	\$ -	\$ -
Fixed income	69,993,569	19,906,295	-	-	50,087,274
Stock investments:					
Domestic equities	207,661,496	119,528,839	-	-	88,132,657
International equities	148,956,809	27,144,512	-	-	121,812,297
Real asset equities	16,489,769	16,489,769	-	-	-
Partnership investments:					
Private equity	34,661,196	-	-	-	34,661,196
Fixed income	37,787,765	-	-	-	37,787,765
Real asset	35,061,225	-	-	-	35,061,225
Total noncurrent investments	<u>\$555,156,378</u>	<u>\$187,613,964</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 367,542,414</u>
Total investments	<u>\$663,395,904</u>	<u>\$252,181,660</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 411,214,244</u>
Fiduciary equity interest in total					
pooled investments	<u>\$ (35,604,079)</u>				
Total pooled investment for the reporting entity	<u>\$627,791,825</u>				
Total beneficial interest assets	<u>\$ 20,526,770</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,526,770</u>	<u>\$ -</u>

The following table discloses the nature and risks of investments that have a fair value based on the net asset value per share as reported by investment institutions where the funds are held at June 30:

- (a) This category includes investments in fixed income securities through a commingled fund structure. The investment manager's emphasis is on spread sectors, in particular puttable corporate bonds and commercial mortgage-backed securities. The fair value of the investments in this category has been estimated using NAV per share of the investments.
- (b) This category included investments in domestic and international equities through a commingled fund structure. The investment objective of these funds is to provide long-term total return in excess of their respective benchmarks. The fair value of the investments in this category has been estimated using NAV per share of the investments.
- (c) This category consists of private capital partnerships in fund of fund underlying managers. Investments include private equity, real estate, and real assets that are not subject to redemption. The Foundation instead receives distributions through the liquidation of the underlying assets of the investees. The estimated remaining life on these funds range from 1 to 11 years.
- (d) This category consists of a high-yield bond portfolio in a commingled fund in which the manager holds publicly traded corporate bonds with some rated below investment grade. The fair value of the investments in this category has been estimated using NAV per share of the investments.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

3. Investments (continued)

2021	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Fixed income ^(a)	\$ 114,336,095	\$ -	Weekly	0-7 days
Stock investments ^(b) :				
Domestic equities	122,142,226	-	Daily/Monthly	2-30 days
International equities	160,444,671	-	Daily/Monthly	5-30 days
Partnership investments:				
Private equity ^(c)	61,893,548	23,306,235	NA	NA
Fixed income ^(d)	23,825,033	2,623,107	Monthly	3-5 days
Real asset ^(e)	41,677,440	11,625,568	NA	NA
Total	<u>\$ 524,319,013</u>	<u>\$ 37,554,910</u>		

2020	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Fixed income ^(a)	\$ 93,759,104	\$ -	Weekly	0-7 days
Stock investments ^(b) :				
Domestic equities	88,132,657	-	Daily/Monthly	2-30 days
International equities	121,812,297	-	Daily/Monthly	5-30 days
Partnership investments:				
Private equity ^(c)	34,661,196	15,202,760	NA	NA
Fixed income ^(d)	37,787,765	9,911,805	Monthly	3-5 days
Real asset ^(e)	35,061,225	18,609,735	NA	NA
Total	<u>\$ 411,214,244</u>	<u>\$ 43,724,300</u>		

4. Endowments

The State of Florida adopted Florida Statute 1010.10, *Florida Uniform Management of Institutional Act* (“FUMIFA”), which provides policy for administration related to investment of endowment funds and the ability to spend net appreciation. The Foundation authorizes expenditures for the uses and purposes for which endowment funds were established.

FUMIFA requires the Foundation Board of Directors (the “Board”) to use reasonable care, skill, and caution as exercised by a prudent investor, in considering the investment management and expenditures of endowment funds. In accordance with FUMIFA, the Foundation’s Board may expend so much of an endowment fund as the Foundation’s Board determines to be prudent for the uses and purposes for which the endowment fund is established, consistent with the goal of conserving the long-term purchasing power of the endowment fund.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

4. Endowments (continued)

In accordance with FUMIFA, the Foundation considers the following factors in making a determination to distribute or accumulate donor-restricted funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation and the University
7. The investment policies of the Foundation

As a result of this interpretation, the Foundation classifies as nonexpendable net position (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in restricted nonexpendable net position is classified as restricted expendable net position until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by FUMIFA.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Under this policy, as approved by the Foundation's Board, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs that will grow the endowment over the long term while supporting the spending policy. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objective within prudent risk constraints.

The Foundation has a spending policy with two components governing the distributions from the endowment: the administrative fee and the dividend payout. In establishing this policy, the Foundation considered the long-term expected return on its endowment.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

4. Endowments (continued)

Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of the long-term rate of inflation. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

The dividend payout rate on endowment invested amounts for years ended June 30, 2021 and 2020 was 4%. Annually, the Foundation's Board evaluates historical performance, projected returns, and the needs of the University to determine the appropriate dividend payout rate. Dividends are calculated monthly and distributed quarterly to all funds invested in the endowment pool based on the five-year average market value of the endowment pool as of December 31 of the preceding fiscal year in which distribution is planned. During the years ended June 30, 2021 and 2020, the Foundation distributed \$24,576,375 and \$19,657,674, respectively, in endowment dividends. The dividends are made available to support the activities and programs of the University, its DSOs, and component units, and are expended in accordance with donor-imposed restrictions.

The Foundation charged a 1.95% administrative fee on endowment invested amounts for the years ended June 30, 2021 and 2020. Annually, the Foundation's Board evaluates historical performance, projected returns, and operating needs to determine the appropriate administrative fee. During the years ended June 30, 2021 and 2020, the Foundation collected \$9,457,599 and \$8,962,922, respectively, in administrative fees. These fees cover the cost of business office operating expenses that include: accounting, auditing, taxes, and other related business expenses; support for fundraising operations; and management of the endowment.

The Foundation endowment consists of approximately 1,392 individual funds established for a variety of purposes. The following displays the total ending endowment balances for nonexpendable endowments or donor-restricted endowments:

	<u>2021</u>	<u>2020</u>
Total Foundation endowment balance	<u>\$654,716,588</u>	<u>\$ 504,445,598</u>
Less appreciated portion of restricted expendable	<u>(283,234,445)</u>	<u>(143,735,055)</u>
Permanently restricted nonexpendable balance	<u>\$371,482,143</u>	<u>\$ 360,710,543</u>

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

5. Contributions Receivable, Net

Contributions receivable are expected to be realized in the following periods June 30:

	<u>2021</u>	<u>2020</u>
In one year or less	\$ 5,538,959	\$ 11,086,774
2023	5,436,143	9,220,152
2024	6,337,409	8,264,752
2025	4,771,013	7,348,877
2026	13,662,974	6,935,006
Thereafter	9,098,023	920,293
	<u>44,844,521</u>	<u>43,775,854</u>
Less present value discount .07% - 1.21%	(626,763)	(215,377)
Less allowance for uncollectible contributions	(949,050)	(926,900)
	<u>\$ 43,268,708</u>	<u>\$ 42,633,577</u>

Contributions receivable, net, are classified as follows:

	<u>2021</u>	<u>2020</u>
Current contributions receivable, net	\$ 10,110,354	\$ 10,209,712
Noncurrent contributions receivable, net	33,158,354	32,423,865
	<u>\$ 43,268,708</u>	<u>\$ 42,633,577</u>

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

6. Capital Assets, Net

Capital assets consist of the following at June 30:

	<u>June 30, 2020</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2021</u>
Land (non-depreciable)	\$ 6,620,414	\$ -	\$ -	\$ 6,620,414
Buildings, improvements, equipment and other:				
Property and equipment	<u>5,361,206</u>	-	-	<u>5,361,206</u>
	<u>11,981,620</u>	-	-	<u>11,981,620</u>
Less accumulated depreciation	<u>(1,137,265)</u>	<u>(118,799)</u>	-	<u>(1,256,064)</u>
Total net capital assets	<u>\$ 10,844,355</u>	<u>\$ (118,799)</u>	<u>\$ -</u>	<u>\$ 10,725,556</u>
	<u>June 30, 2019</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2020</u>
Land (non-depreciable)	\$ 6,620,414	\$ -	\$ -	\$ 6,620,414
Buildings, improvements, equipment and other:				
Property and equipment	<u>5,248,259</u>	<u>112,947</u>	-	<u>5,361,206</u>
	<u>11,868,673</u>	<u>112,947</u>	-	<u>11,981,620</u>
Less accumulated depreciation	<u>(1,024,719)</u>	<u>(112,546)</u>	-	<u>(1,137,265)</u>
Total net capital assets	<u>\$ 10,843,954</u>	<u>\$ 401</u>	<u>\$ -</u>	<u>\$ 10,844,355</u>

The Foundation acquired a parcel of land located in St. Petersburg, Florida, adjacent to the USF St. Petersburg campus. The Foundation has entered into an operating lease agreement with the University for the use of the property by USF St. Petersburg. See Note 12 for information on the operating lease. The Foundation financed this property with a mortgage obligation. See Note 10 for information regarding the associated mortgage payable. Certain costs associated with the development and improvement of this property are incurred directly by the University. These amounts are transferred to the Foundation for capitalization. Transfers received for building and improvements were \$-0- and \$112,947 as of June 30, 2021 and 2020, respectively, and are recorded in nonoperating revenue in the accompanying statements of revenues, expenses, and changes in net position.

Depreciation expense of \$118,799 and \$112,546 was included in operating expenses for program services for the years ended June 30, 2021 and 2020, respectively. Works of art are measured at acquisition value when gifted were \$3,907,176 and \$3,942,296 as of June 30, 2021 and 2020, respectively, and are included in the statement of net position.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

7. Due to/from the University of South Florida, Net

Due to (from) the USF consists of the following at June 30:

	<u>2021</u>	<u>2020</u>
USF Health Morsani College and Heart Institute loan	\$ 5,991,975	\$ 6,100,000
Supplemental and deferred compensation contracts	-	(4,500)
Convenience accounts and pending transfers	(7,876,089)	(1,485,808)
Courtelis Facilities Matching Gift Program	(334,685)	(334,685)
	<u>\$ (2,218,799)</u>	<u>\$ 4,275,007</u>

Due to (from) the University of South Florida, net, are classified as follows at June 30:

	<u>2021</u>	<u>2020</u>
Noncurrent assets due from USF, net	\$ 5,857,801	\$ 5,765,315
Current liabilities due to USF, net	(8,076,600)	(1,490,308)
	<u>\$ (2,218,799)</u>	<u>\$ 4,275,007</u>

During fiscal year 2018, the Foundation entered into a Memorandum of Understanding (“MOU”) with the University in which the Foundation granted USF Health Morsani College of Medicine, a division of the University, a loan in an amount not to exceed \$18,000,000. The loan proceeds are to be used to finance the construction of the USF Health Morsani College of Medicine Heart Institute. Under the terms of the MOU, payments of principal shall be made as collateralized commitments are received by the Foundation and interest payments shall be paid quarterly. All loan principal and interest accrued shall be repaid no later than September 30, 2022. Interest shall be calculated from the date of the first draw of the loan at a rate equal to the prime rate, reset at the beginning of each calendar quarter. No interest was collected due to the timing of the draw just prior to June 30. During the years ended June 30, 2021 and 2020, collateralized commitments of \$108,025 and \$-0-, respectively, were received by the Foundation.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

7. Due to/from the University of South Florida, Net (continued)

The Foundation has entered into supplemental compensation agreements with certain University employees on behalf of the University. These agreements provide for amounts that would be paid in the event of involuntary termination without cause. The potential maximum amounts under these contracts range from \$184,000 to \$9,399,000 and may be reduced or eliminated based on a predetermined schedule or compensation earned during employment in addition to reductions for severance paid by USF and compensation from new employment. Based on conditions required in the agreements, the likelihood of these payments occurring is considered remote and will be recognized when due to the University. In addition, some of these agreements provide for deferred compensation amounts that will be earned at a future date or in the event of death, disability, or termination without cause. In some cases, the deferred compensation is earned on a pro-rated basis in the event of resignation or termination for cause. The amounts recorded within due to University of South Florida on the statements of net position to recognize the deferred compensation was \$-0- and \$4,500 as of June 30, 2021 and 2020, respectively. The amounts recorded as program services on the statements of revenues, expenses, and changes in net position to reflect the expense associated with the liability for deferred compensation was \$4,500 and \$832,854 for the years ended June 30, 2021 and 2020, respectively. The University has committed to support the funding of these agreements if there are not sufficient funds available to them in the Foundation at the time of payment. Any payments due under these agreements will be made by the Foundation to the University for them to process for their employees.

The Foundation has convenience accounts held at the University in which money is transferred to pay salaries and reimburse other expenses incurred by the University. The balances of these accounts reflect the difference between actual costs incurred and amounts transferred during the year netted with transfers pending at June 30.

The Courtelis Facilities Matching Gift Program liability represents private money raised to support the construction of the USF Health Major Renovation/Remodeling/Addition, USF Health North Clinic, USF Joint Military Science Leadership Center, USF Byrd Alzheimer's Institute, USF Health Nursing Expansion, and the College of The Arts Music Building.

The Foundation certifies to the University and the State on December 31 of each year the amount of private money that has been raised and that is eligible to be matched under the program. During each annual legislative session, the legislature may appropriate funding or veto a project for matching. Once the appropriation has been made by the legislature, the Foundation is obligated to transfer the funds to the University to receive the match. During fiscal years 2021 and 2020, no appropriation was made by the legislature for the University projects eligible to receive matching funds from the program. The Courtelis Facilities Matching Gift Program has been temporarily suspended for donations received on or after June 30, 2011. Existing eligible donations received on or before June 29, 2011 remain eligible for future matching funds. The program may be restarted after \$200 million of the backlog for the state match programs have been funded.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

8. Liabilities to Life Beneficiaries

The Foundation is obligated under 23 charitable gift annuity agreements to pay annuities with rates ranging from 4.1% to 9.5% to life beneficiaries. These annuity obligations are calculated based on actuarial assumptions, using IRS tables, at their present value each year. During the year ended June 30, 2021, there were payments of \$226,727 made on annuities. Upon satisfaction of the terms of each trust, the trust assets shall be transferred to the Foundation per the donor's direction. The Foundation has recorded liabilities to life beneficiaries on the accompanying statements of net position equal to the present value of the total anticipated future payments to the beneficiaries of these trusts and annuities of \$1,538,419 as of June 30, 2021.

	<u>June 30, 2020</u>	<u>New Obligations</u>	<u>Adjustments to Liability</u>	<u>Beneficiary Payments</u>	<u>June 30, 2021</u>	<u>Amount Due Within One Year</u>
Liabilities to life beneficiaries	<u>\$ 1,041,524</u>	<u>\$ 582,737</u>	<u>\$ 140,885</u>	<u>\$ (226,727)</u>	<u>\$ 1,538,419</u>	<u>\$ 226,727</u>

	<u>June 30, 2019</u>	<u>New Obligations</u>	<u>Adjustments to Liability</u>	<u>Beneficiary Payments</u>	<u>June 30, 2020</u>	<u>Amount Due Within One Year</u>
Liabilities to life beneficiaries	<u>\$ 584,977</u>	<u>\$ 676,403</u>	<u>\$ (64,429)</u>	<u>\$ (155,427)</u>	<u>\$ 1,041,524</u>	<u>\$ 155,427</u>

9. Amounts Due to Third Party Beneficiaries

Amounts due to third-party beneficiaries, net, related to deferred compensation arrangements are classified as follows:

	<u>June 30, 2020</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2021</u>	<u>Amount Due Within One Year</u>
Amounts due to third party beneficiaries	<u>\$ 123,353</u>	<u>\$ 186,718</u>	<u>\$ -</u>	<u>\$ 310,071</u>	<u>\$ 310,071</u>

	<u>June 30, 2019</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2020</u>	<u>Amount Due Within One Year</u>
Amounts due to third party beneficiaries	<u>\$ -</u>	<u>\$ 123,353</u>	<u>\$ -</u>	<u>\$ 123,353</u>	<u>\$ -</u>

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

10. Mortgage Payable

The Foundation financed property adjacent to the USF St. Petersburg campus with a fully amortizing nonrecourse mortgage of \$6,200,000. The mortgage is collateralized by an asset with a carrying value of \$6,200,000 (see Note 6) and future improvements made to the property. Payments of \$41,707 are due monthly over a 15-year period at a fixed rate of 2.625%.

	<u>June 30, 2020</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2021</u>	<u>Amount Due Within One Year</u>
Mortgage payable	\$ 4,332,852	\$ -	\$ (391,431)	\$ 3,941,421	\$ 401,830

	<u>June 30, 2019</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2020</u>	<u>Amount Due Within One Year</u>
Mortgage payable	\$ 4,714,152	\$ -	\$ (381,300)	\$ 4,332,852	\$ 391,431

Principal and interest requirements are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 401,830	\$ 98,651	\$ 500,481
2023	412,506	87,975	500,481
2024	423,466	77,015	500,481
2025	434,716	65,765	500,481
2026	446,266	54,215	500,481
Thereafter	1,822,637	95,197	1,917,834
	<u>\$ 3,941,421</u>	<u>\$ 478,818</u>	<u>\$ 4,420,239</u>

Interest expense of \$109,050 and \$119,181 is included in program services expenses in the accompanying statements of revenue, expenses, and changes in net position for the years ended June 30, 2021 and 2020, respectively.

The Foundation's mortgage of \$3,941,421 and \$4,332,852 contains a provision that in the event of default any amounts advanced will be immediately due if the Foundation is unable to make payment in full when due. In addition, the Foundation may be liable to the lender for any and all insurance benefits or refunds that may be available on default.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

11. Related Party Transactions

The Foundation considers the University, its DSOs, and members of the Foundation's Board to be related parties for purposes of the financial statements. The DSOs include the USF Alumni Association, Inc.; University Medical Services Association (UMSA); USF Medical Services Support Corporation; USF Health Professions Conferencing Corporation (HPCC); USF Research Foundation, Inc.; USF Financing Corporation, Inc.; USF Property Corporation, Inc.; and Sun Dome, Inc. (Sun Dome).

Program services expenses on the accompanying statements of revenues, expenses, and changes in net position include amounts transferred to related parties or amounts disbursed directly to third parties to benefit the University or its DSOs. These expenses include salaries, scholarships, and other program-related expenses. Also, included in these expenses was property donated to or purchased by the Foundation, and transferred to the University for asset management and recordkeeping purposes.

Employees of the University perform operating functions for the Foundation. The University tracks, administers, and reports all payroll and fringe benefit costs. The University directly funded salaries of \$13,209,335 and \$13,483,130 for University employees that perform functions for the benefit of both the University and the Foundation for the years ended June 30, 2021 and 2020, respectively. This amount is included in University support on the statements of revenues, expenses, and changes in net position. The Foundation transferred additional payroll and fringe benefit costs to the University of \$2,415,837 and \$1,698,820 for the years ended June 30, 2021 and 2020, respectively. These amounts are shown on the statements of revenue, expenses, and changes in net position in fundraising and operating costs.

The University recognized and reported a compensated absence liability of approximately \$1,590,000 and \$1,378,000 for University employees performing functions for the Foundation for the years ended June 30, 2021 and 2020, respectively. This amount is not included in the Foundation's statements of revenues, expenses, and changes in net position.

Portions of the Foundation's contributions receivable balance (\$1,013,176 and \$844,583 at June 30, 2021 and 2020, respectively) are commitments made to the Foundation by several members of the Foundation's Board. In addition, the Foundation received \$380,780 and \$282,547 during the years ended June 30, 2021 and 2020, respectively, in cash and in-kind contributions from various members of the Foundation's Board. DSOs have made gifts to the Foundation of \$6,000 and \$63,533 for the years ended June 30, 2021 and 2020, respectively. These amounts are included in contributions on the accompanying statements of revenues, expenses, and changes in net position.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

11. Related Party Transactions (continued)

The Foundation has interfund loans to University colleges, units, and regional campuses that are collateralized by assets within the Foundation. Foundation interfund loans totaled approximately \$4,542,479 and \$5,998,000 at June 30, 2021 and 2020, respectively, and net of \$-0- on the accompanying statements of net position.

The Foundation executed a noncancelable operating lease with the University as the tenant related to property described in Note 6. The lease agreement requires the University to make monthly lease payments of \$43,913 to the Foundation through March 30, 2032. During the years ended June 30, 2021 and 2020, the Foundation received \$526,956 and \$526,956, respectively, in lease payments from the University, which is included in other income in the accompanying statements of revenues, expenses, and changes in net position.

Aggregate future minimum lease payments expected to be received are as follows:

2022	\$	526,956
2023		526,956
2024		526,956
2025		526,956
2026		526,956
Thereafter		3,029,997
	\$	<u>5,664,777</u>

During the fiscal year ended June 30, 2020, the USF Financing Corporation issued resolution no. FC 04-28-20C to authorize a distribution of \$2,200,000 to the USF Foundation in support of University strategic initiatives. This amount is included in the accompanying statements of revenues, expenses and changes in net position. No such amount was received during the year ended June 30, 2021.

12. Contingencies

The Foundation participates in state assisted grant programs that are subject to review and audit by the grantor agencies. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of the grant agreements and applicable state regulations. Any disallowance resulting from a regulatory audit may become a liability of the Foundation. Liabilities, if any, from such audits, if any, are recorded when the amounts of such liabilities become reasonably determinable.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

June 30, 2021 and 2020

12. Contingencies (continued)

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) 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 and hence its financial impact the Foundation has seen a decrease in expenditures due to the campus closures.

13. Subsequent Events

The Foundation has evaluated subsequent events from the net position date through October 22, 2021, the date which the financial statements were available to be issued, and determined there are no items to disclose.

Supplemental Schedule

University of South Florida Foundation, Inc.

Schedule of Functional Expenses

June 30, 2021

	Program Service Support	Fundraising Support	Operating Costs	Total Expenses
Salaries and other supplements	\$20,720,580	\$ 8,934,835	\$ 7,254,216	\$36,909,631
Community relations	432,231	241,956	-	674,187
Travel and per diems	30,279	7,824	7,904	46,007
Meals and entertainment	512,748	64,143	8,404	585,295
Supplies and equipment	883,939	38,044	73,145	995,128
Scholarships and awards	10,802,084	-	-	10,802,084
Conferences and seminars	303,550	13,561	27,386	344,497
University services	12,198,991	1,306	95,945	12,296,242
Postage, printing, and publication	299,940	176,778	27,069	503,787
Books and journals	261,274	3,100	8,940	273,314
Building repair and maintenance	1,826,728	-	26,836	1,853,564
Service and independent contractors	1,618,392	117,883	923,561	2,659,836
Insurance, licenses, taxes, and assessments	19,692	-	296,669	316,361
Depreciation	118,799	-	-	118,799
Interest expense	109,050	-	-	109,050
Other costs	830,273	33,967	275,580	1,139,820
Subtotal	50,968,550	9,633,397	9,025,655	69,627,602
Other Expenses:				
Provision for uncollectible pledges	1,848,288	-	-	1,848,288
Total	<u>\$52,816,838</u>	<u>\$ 9,633,397</u>	<u>\$ 9,025,655</u>	<u>\$71,475,890</u>

University of South Florida Foundation, Inc.

Schedule of Functional Expenses

June 30, 2020

	Program Service Support	Fundraising Support	Operating Costs	Total Expenses
Salaries and other supplements	\$18,498,115	\$ 8,515,998	\$ 6,425,654	\$33,439,767
Community relations	587,733	158,858	-	746,591
Travel and per diems	817,386	62,706	21,770	901,862
Meals and entertainment	1,230,775	223,104	162,767	1,616,646
Supplies and equipment	1,516,842	58,286	60,794	1,635,922
Scholarships and awards	13,212,737	114,091	9,600	13,336,428
Conferences and seminars	235,949	40,054	35,411	311,414
University services	8,318,500	4,220	83,689	8,406,409
Postage, printing, and publication	443,701	252,475	44,495	740,671
Books and journals	457,801	2,265	3,572	463,638
Building repair and maintenance	1,328,231	2,764	37,045	1,368,040
Service and independent contractors	3,144,439	185,207	1,543,207	4,872,853
Insurance, licenses, taxes, and assessments	41,167	-	274,172	315,339
Depreciation	112,546	-	-	112,546
Interest expense	119,181	-	-	119,181
Other costs	768,492	5,588	114,494	888,574
Subtotal	50,833,595	9,625,616	8,816,670	69,275,881
Other Expenses:				
Provision for uncollectible pledges	111,644	-	-	111,644
Total	<u>\$50,945,239</u>	<u>\$ 9,625,616</u>	<u>\$ 8,816,670</u>	<u>\$69,387,525</u>