

**UNIVERSITY OF SOUTH FLORIDA  
RESEARCH FOUNDATION, INC.  
(A Component Unit of the  
University of South Florida)**

**FINANCIAL STATEMENTS  
AND COMPLIANCE REPORT**

*As of and for the Year Ended June 30, 2022*

*And Reports of Independent Auditor*

**UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.**  
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## Report of Independent Auditor

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

### Report on the Audit of the Financial Statements

#### **Opinions**

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the University of South Florida Research Foundation, Inc. (the “Research Foundation”), a component unit of the University of South Florida, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Research Foundation’s basic financial statements as listed in the table of contents.

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 the aggregate remaining fund information of the Research Foundation, as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flow thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Research Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Research Foundation’s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

#### **Auditor’s Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Research Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Research Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

#### ***Supplementary Information***

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2022, on our consideration of the Research Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Research Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Research Foundation's internal control over financial reporting and compliance.

*Cherry Bekaert LLP*

Tampa, Florida  
October 12, 2022

# UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEAR ENDED JUNE 30, 2022

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### Management's Discussion and Analysis

The management's discussion and analysis ("MD&A") provides an overview of the financial position and activities of the University of South Florida Research Foundation, Inc. (the "Research Foundation") for the fiscal year ended June 30, 2022, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of the Research Foundation's management.

### Financial Highlights

The Research Foundation's total assets were \$185.0 million at June 30, 2022. This balance reflects an increase of \$55.9 million (43.3%) from total assets of \$129.1 million at June 30, 2021. Total liabilities increased \$17.9 million (53.8%) to \$51.1 million at June 30, 2022 from total liabilities of \$33.2 million at June 30, 2021. At June 30, 2022 a deferred inflows of resources was \$56.0 million which was not required in the fiscal year ended June 30, 2021. The Research Foundation's net position decreased by \$18.0 million (18.8%), resulting in a year-end balance of \$77.9 million at June 20, 2022.

Operating revenues were \$14.0 million in fiscal year 2022 for a decrease of \$6.3 million (31.1%) from \$20.3 million for the prior fiscal year. Operating expenses of \$14.7 million in fiscal year 2022 increased by \$4.5 million (43.5%) from \$10.2 million in fiscal year 2021. An operating loss of \$649 thousand in fiscal year 2022 reflects a decrease of \$10.8 million (106.4%) from fiscal year 2021 operating income of \$10.1 million.

Net nonoperating expenses of nonoperating revenue were \$17.4 million in fiscal year 2022, for a decrease of \$33.2 million (209.8%) from fiscal year 2021 net nonoperating revenue of \$15.8 million. For fiscal year 2022, the decrease in net position was \$18.0 million, compared to an increase in net position of \$26.0 million for fiscal year 2021.

### Overview of Financial Statements

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

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

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

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

The prior-period information in this MD&A is not consistent with the current-period information as a result of a change in accounting principle, GASB 87 *Leases*, as the effect on the prior period financial statements was not significant to the reader. See footnote 2 to the financial statements for additional information.

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

YEAR ENDED JUNE 30, 2022

**Condensed Statements of Net Position**

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

|                                      | <u>2022</u>          | <u>2021</u>          |
|--------------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                        |                      |                      |
| Current assets                       | \$ 57,902,971        | \$ 77,492,540        |
| Restricted cash                      | 695,834              | 670,833              |
| Capital assets, net                  | 66,659,681           | 40,930,703           |
| Noncurrent lease receivables         | 49,546,060           | -                    |
| Other noncurrent assets              | 10,179,454           | 10,022,879           |
| Total Assets                         | <u>184,984,000</u>   | <u>129,116,955</u>   |
| <b>LIABILITIES</b>                   |                      |                      |
| Current                              | 11,333,376           | 16,662,973           |
| Noncurrent                           | <u>39,766,926</u>    | <u>16,561,755</u>    |
| Total Liabilities                    | <u>51,100,302</u>    | <u>33,224,728</u>    |
| <b>DEFERRED INFLOWS OF RESOURCES</b> |                      |                      |
| Deferred inflow related to leases    | <u>56,032,123</u>    | <u>-</u>             |
| <b>NET POSITION</b>                  |                      |                      |
| Net investment in capital assets     | 25,629,915           | 23,983,040           |
| Restricted                           | 2,513,917            | 15,389,003           |
| Unrestricted                         | <u>49,707,743</u>    | <u>56,520,184</u>    |
| Total Net Position                   | <u>\$ 77,851,575</u> | <u>\$ 95,892,227</u> |

Total current assets were \$57.9 million at June 30, 2022 for a decrease of \$19.6 million (25.3%) from total current assets of \$77.5 million at June 30, 2021. Total investments to include receipt of a stock receivable recorded in fiscal year 2021, decreased \$27.8 million (38.4%) in fiscal year 2022. The fair value of investments to include equity from the stock receivable, decreased collectively in fiscal year 2022 by \$23.8 million. In addition thereto, a redemption of investments for \$3.5 million to fund debt service and construction costs for the mixed use laboratory and office project building ("3814 Spectrum") and \$500 thousand of dividend distributions also occurred in fiscal year 2022. Other significant changes in current assets include an increase of lease receivables of \$7.5 million (100.0%), and an increase in cash of \$1.8 million (57.9%) at June 30, 2022.

Net capital assets of \$66.7 million at June 30, 2022 represent an increase of \$25.7 million (62.9%) from June 30, 2021. The net increase resulted from fiscal year 2022 capital asset additions of \$30.4 million for capitalized cost of buildings and equipment, offset by a decrease of \$2.0 million for construction costs in process and depreciation charges of \$2.7 million.

The Research Foundation as a lessor recognized lease receivables of \$49.5 million as a noncurrent asset for maturities of lease receipts expected to be received in future years 2024 through 2035 based on the underlying leases. In conjunction with GASB 87 accounting for leases, the deferred inflow of resources was measured at the initial value of the lease receivables, and in a systematic and rational manner over the terms of the leases, will be recognized as inflows of resources (i.e. revenue).

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

*YEAR ENDED JUNE 30, 2022*

Total liabilities increased \$17.9 million (53.8%) to \$51.1 million at June 30, 2022 from \$33.2 million at June 30, 2021. Current liabilities decreased \$5.3 million (32.0%) to \$11.3 million with noncurrent liabilities increasing \$23.2 million (140.1%) to \$39.8 million.

The fiscal year 2022 decrease of \$5.3 million in current liabilities include \$1.2 million decrease in accounts payable and accrued liabilities principally attributed to a decrease of \$960 thousand (72.1%) in the payable for inventor royalties resulting from increased distributions. Total distributions of inventor royalties increased \$1.8 million to \$2.4 million in fiscal year 2022 from \$552 thousand distributed in fiscal year 2021. The current liability for amounts due to the University of South Florida decreased by a net amount of \$5.9 million (44.4%) to \$7.4 million at June 30, 2022 from \$13.3 million at June 30, 2021. The payable decreased by \$6.6 million due to a decline in fair value of equity securities acquired pursuant to intellectual property license agreements based on fair value at June 30, 2022 when compared to June 30, 2021.

As further disclosed in the notes to the financial statements, the current portion of debt collectively increased by \$1.7 million at June 30, 2022, with noncurrent debt increasing \$23.2 million.

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

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

|                                     | <u>2022</u>          | <u>2021</u>          |
|-------------------------------------|----------------------|----------------------|
| Operating revenues                  | \$ 14,022,116        | \$ 20,355,140        |
| Operating expenses                  | <u>14,670,850</u>    | <u>10,222,996</u>    |
| Operating (loss) income             | (648,734)            | 10,132,144           |
| Net nonoperating (expense) revenue  | <u>(17,391,918)</u>  | <u>15,833,909</u>    |
| (Decrease) increase in net position | (18,040,652)         | 25,966,053           |
| Net position, beginning of year     | <u>95,892,227</u>    | <u>69,926,174</u>    |
| Net position, end of year           | <u>\$ 77,851,575</u> | <u>\$ 95,892,227</u> |

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

YEAR ENDED JUNE 30, 2022

**Operating Revenues**

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

|   | <u>2022</u>          | <u>2021</u>          | <u>Increase<br/>(Decrease)</u> | <u>%<br/>Change</u> |
|---|----------------------|----------------------|--------------------------------|---------------------|
| Property rental revenues as<br>invoiced to tenants    | \$ 10,211,834        | \$ 9,667,127         | \$ 544,707                     | 5.6%                |
| GASB 87 implementation:<br>Adjust for interest income | <u>(577,461)</u>     | <u>-</u>             | <u>(577,461)</u>               | 100.0%              |
|   | <u>9,634,373</u>     | <u>9,667,127</u>     | <u>(32,754)</u>                | -0.3%               |
| Royalties, licenses, and<br>option fees               | 3,868,344            | 2,560,553            | 1,307,791                      | 51.1%               |
| License fees - IP equity transactions                 | -                    | 7,432,733            | (7,432,733)                    | 100.0%              |
| Other license fees                                    | <u>-</u>             | <u>243,918</u>       | <u>(243,918)</u>               | -100.0%             |
|   | 3,868,344            | 10,237,204           | (6,368,860)                    | -62.2%              |
| Contracts and grants                                  | 342,683              | 286,911              | 55,772                         | 19.4%               |
| Administrative fees                                   | <u>176,716</u>       | <u>163,898</u>       | <u>12,818</u>                  | 7.8%                |
| Total Operating Revenues                              | <u>\$ 14,022,116</u> | <u>\$ 20,355,140</u> | <u>\$ (6,333,024)</u>          | -31.1%              |

Property rental revenues were \$9.6 million in fiscal year 2022 for a slight decrease of \$33 thousand (.3%) from the prior fiscal year reported revenue. The adoption of GASB 87 recognizes a component of lease receivables will include interest income. The increase in property rents as invoiced to tenants of \$545 thousand (5.6%) was due to annual escalations and pass through recovery of increased operating costs.

Operating revenues from royalties, licenses and option fees excluding license fees attributed to non-cash equity transactions, increased \$1.3 million (51.1%) in fiscal year 2022. License fees of \$7.4 million recorded in fiscal year 2021 attributed to non-cash equity transactions which originated from intellectual property license agreements did not reoccur in fiscal year 2022. In fiscal year 2021, a reoccurring annual use license fee that had been executed by the University was not renewed thus accounting for the decrease of \$244 thousand in fiscal year 2022.

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

YEAR ENDED JUNE 30, 2022

**Operating Expenses**

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

|  | <u>2022</u>          | <u>2021</u>          | <u>(Decrease)</u>   | <u>Change</u> |
|--|----------------------|----------------------|---------------------|---------------|
| Property rental expenses                 | \$ 8,449,157         | \$ 7,220,574         | \$ 1,228,583        | 17.0%         |
| University support - IP costs            | 2,169,203            | -                    | 2,169,203           | 100.0%        |
| Inventor royalties                       | 1,438,488            | 1,098,827            | 339,661             | 30.9%         |
| Inventing department and other royalties | 758,252              | 593,251              | 165,001             | 27.8%         |
| Intellectual property costs              | 626,066              | 143,948              | 482,118             | 334.9%        |
| Contracts and grants                     | 342,683              | 286,911              | 55,772              | 19.4%         |
| Seed capital expense                     | 64,484               | 87,050               | (22,566)            | -25.9%        |
| Management and general                   | 822,517              | 792,435              | 30,082              | 3.8%          |
| Total Operating Expenses                 | <u>\$ 14,670,850</u> | <u>\$ 10,222,996</u> | <u>\$ 4,447,854</u> | 43.5%         |

Property rental expenses increased \$1.2 million (17.0%) to \$8.4 million in fiscal year 2022 from \$7.2 million in the prior fiscal year. The overall increase is primarily due to repairs and maintenance costs which increased \$1.1 million (84.6%) to include \$422 thousand for flooding remediation of a retention pond located within the Research Park, \$383 thousand for subsurface stabilization that was necessary for a property located within the Research Park, and \$377 thousand landscaping costs incurred for the property adjoining the newly constructed building.

University support for intellectual property expense of \$2.2 million in fiscal year 2022 represents the transfer of costs that was funded by the Research Foundation for 75% of the annual operating costs of the Technology Transfer Office ("TTO") incurred by the University. TTO operating expenses are principally salaries and legal costs for patent prosecution and litigation efforts.

Intellectual property royalty expense to include inventors and University departments and colleges collectively increased to \$2.2 million (29.8%) in fiscal year 2022 from \$1.7 million royalty expense recorded in fiscal year 2021. Total royalty expense as a percent of intellectual property fee revenue was 65% in fiscal year 2022, remaining comparable to 66% incurred in fiscal year 2021.

Other intellectual property costs of \$626 thousand increased \$482 thousand (334.9%) in fiscal year 2022 due to legal costs incurred in support of a settlement fee reached involving patent costs protection.

In fiscal year 2022, an additional expense to reserve for unlikely collection of the Seed Capital notes and interest receivables was recorded to reduce the estimated net realizable value of the notes and interest receivable, given consideration of conversion features associated with the note and specific review of the start-up company's ability to pay. Based on repayment activity in fiscal year 2022, the debt reserve was increased \$64 thousand.

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

YEAR ENDED JUNE 30, 2022

**Nonoperating Revenues and Expenses**

Certain revenue sources including investment income and interest income are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the Research Foundation's nonoperating revenues and expenses for the 2022 and 2021 fiscal years:

|  | <u>2022</u>            | <u>2021</u>          | <u>Change</u>          | <u>%<br/>Change</u> |
|--|------------------------|----------------------|------------------------|---------------------|
| Nonoperating Revenue (Expense):          |                        |                      |                        |                     |
| Investment (loss) income                 | \$ (17,696,629)        | \$ 17,373,197        | \$ (35,069,826)        | -201.9%             |
| Interest income                          | 1,739,314              | 8,063                | 1,731,251              | 21471.5%            |
| Interest expense                         | (1,434,603)            | (1,547,351)          | 112,748                | -7.3%               |
| Total Net Nonoperating Revenue (Expense) | <u>\$ (17,391,918)</u> | <u>\$ 15,833,909</u> | <u>\$ (33,225,827)</u> | -209.8%             |

A nonoperating investment loss of \$17.7 million was recorded in fiscal year 2022. The loss included \$11.6 million unrealized loss to reflect the fiscal year 2022 decrease in fair value of equity securities acquired pursuant to intellectual property license agreements. An additional loss of \$6.1 million reflects the decreased market performance of the investment portfolio in fiscal year 2022.

Nonoperating interest income of \$1.7 million to record interest revenue on the lease receivables for fiscal year 2022 accounts for the increase over fiscal year 2021.

Nonoperating interest expense of \$1.4 million in fiscal year 2022 decreased \$113 thousand (7.3%) from fiscal year 2021. Interest costs include debt service for the note payable of \$448 thousand, \$825 thousand for the financed purchase obligation of the newly constructed mixed use laboratory and office building that is located in the USF Research Park, \$124 thousand for the finance purchase obligation of the UDI building and \$37 thousand for the office space lease obligation.

**Condensed Statements of Cash Flows**

The following summarizes cash flows for the 2022 and 2021 fiscal years:

|  | <u>2022</u>         | <u>2021</u>         |
|--|---------------------|---------------------|
| <b>Cash flows from:</b>                  |                     |                     |
| Operating activities                     | \$ 3,651,922        | \$ 5,573,858        |
| Capital and related financing activities | (6,417,764)         | (5,070,765)         |
| Investing activities                     | 4,571,518           | 2,599,578           |
| Net increase in cash                     | 1,805,676           | 3,102,671           |
| Cash, beginning of year                  | 3,748,504           | 645,833             |
| Cash, end of year                        | <u>\$ 5,554,180</u> | <u>\$ 3,748,504</u> |

Fiscal year 2022 generated positive cash flow from operations of \$3.7 million, for a decrease of \$1.9 million (34.5%) from fiscal year 2021 operating activities which generated \$5.6 million. The decrease in operating cash flow was caused by \$2.6 million decrease in net cash flow from intellectual property activities in fiscal year 2022 when compared to the prior fiscal year 2021. The fiscal year 2022 net cash flow from operating activities of \$3.7 million, together with \$3.5 million cash flow from redemption of investment securities and an additional \$1.0 million cash flow from investing activities were used as the source of funding \$6.4 million capital and financing activities, and the net increase of \$1.8 million in cash at June 30, 2022.

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

*YEAR ENDED JUNE 30, 2022*

**Capital Assets**

At June 30, 2022, the Research Foundation had \$104.4 million in capital assets, less accumulated depreciation of \$37.7 million, for net capital assets of \$66.7 million. Due to the timing of fiscal year 2022 asset additions being placed into service, depreciation expense of \$2.7 million remained consistent for the fiscal years ended June 30, 2022 and 2021.

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

|                           | <u>2022</u>          | <u>2021</u>          |
|---------------------------|----------------------|----------------------|
| Land                      | \$ 8,739,633         | \$ 8,739,633         |
| Construction in process   | 423,375              | 2,432,313            |
| Buildings, net            | 56,726,559           | 29,463,622           |
| Equipment, net            | 770,114              | 295,135              |
| Total capital assets, net | <u>\$ 66,659,681</u> | <u>\$ 40,930,703</u> |

As of June 30, 2022, the Research Foundation had right-to-use asset of \$1,409,479 less accumulated amortization of \$650,529 for right-to-use asset, net of \$758,950.

**Debt Administration**

At June 30, 2022, the Research Foundation had \$42.5 million in outstanding debt representing an increase of \$24.9 million (141.3%) from the prior fiscal year balance of \$17.6 million. The increase in debt resulted from the financed purchase lease obligation for the 3814 Spectrum building with a balance of \$25.2 million at June 30, 2022, and the office space lease liability of \$800 thousand, offset by principal payments of \$1.1 million on previously recorded debt.

**Economic Factors That Will Affect the Future**

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

Leases for existing structures and ground lease transactions within the Research Park are a significant source of revenue for the Research Foundation. While there is ongoing risk of lease terminations, there continues to be encouraging interest in leasing available space within the Research Park to include the 120,000 square feet of the recently constructed mixed use laboratory and office building. Further growth is dependent on marketing efforts and market conditions.

**Request for Information**

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

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

*JUNE 30, 2022*

**ASSETS**

Current Assets:

|                                   |              |
|-----------------------------------|--------------|
| Cash                              | \$ 4,858,346 |
| Investments and other investments | 44,632,857   |
| Accounts receivable, net          | 630,840      |
| Lease receivables                 | 7,503,561    |
| Other current assets              | 277,367      |
|                                   | <hr/>        |
| Total Current Assets              | 57,902,971   |

Noncurrent Assets:

|  |                    |
|--|--------------------|
| Restricted cash                        | 695,834            |
| Right-to-use asset, net                | 758,950            |
| Capital assets, net                    | 66,659,681         |
| Developer rights to Research Park, net | 6,761,508          |
| Noncurrent lease receivables           | 49,546,060         |
| Noncurrent receivables                 | 145,079            |
| Reserve for debt service               | 2,513,917          |
|  | <hr/>              |
| Total Noncurrent Assets                | 127,081,029        |
|  | <hr/>              |
| <b>Total Assets</b>                    | <b>184,984,000</b> |

**LIABILITIES**

Current Liabilities:

|   |            |
|---|------------|
| Accounts payable and accrued liabilities              | 932,685    |
| Due to University of South Florida                    | 7,412,575  |
| Current portion of lease liability                    | 665,811    |
| Current portion of notes payable                      | 835,000    |
| Current portion of financed purchase lease obligation | 1,237,416  |
| Unearned revenues                                     | 249,889    |
|   | <hr/>      |
| Total Current Liabilities                             | 11,333,376 |

Noncurrent Liabilities:

|   |                   |
|---|-------------------|
| Lease liability, less current portion                     | 113,743           |
| Note payable, less current portion                        | 12,995,000        |
| Financed purchase lease obligations, less current portion | 26,658,183        |
|   | <hr/>             |
| Total Noncurrent Liabilities                              | 39,766,926        |
|   | <hr/>             |
| <b>Total Liabilities</b>                                  | <b>51,100,302</b> |

**DEFERRED INFLOWS OF RESOURCES**

|                                   |            |
|-----------------------------------|------------|
| Deferred inflow related to leases | 56,032,123 |
|                                   | <hr/>      |

**NET POSITION**

|                                  |                      |
|----------------------------------|----------------------|
| Net investment in capital assets | 25,629,915           |
| Restricted                       | 2,513,917            |
| Unrestricted                     | 49,707,743           |
|                                  | <hr/>                |
| <b>Total Net Position</b>        | <b>\$ 77,851,575</b> |

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

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

*YEAR ENDED JUNE 30, 2022*

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|  |                      |
|--|----------------------|
| Operating Revenues:                              |                      |
| Property rental revenues                         | \$ 9,634,373         |
| Royalties, licenses, and option fees             | 3,868,344            |
| Contracts and grants                             | 342,683              |
| Administrative fees                              | <u>176,716</u>       |
| Total Operating Revenues                         | <u>14,022,116</u>    |
| Operating Expenses:                              |                      |
| Property rental expenses                         | 8,449,157            |
| University support - intellectual property costs | 2,169,203            |
| Inventor royalties                               | 1,438,488            |
| Inventing department and other royalties         | 758,252              |
| Intellectual property costs                      | 626,066              |
| Contracts and grants                             | 342,683              |
| Seed capital expense                             | 64,484               |
| Management and general                           | <u>822,517</u>       |
| Total Operating Expenses                         | <u>14,670,850</u>    |
| Operating (Loss)                                 | <u>(648,734)</u>     |
| Nonoperating Revenue (Expense):                  |                      |
| Investment loss                                  | (17,696,629)         |
| Interest income                                  | 1,739,314            |
| Interest expense                                 | <u>(1,434,603)</u>   |
| Total Net Nonoperating (Expense)                 | <u>(17,391,918)</u>  |
| Decrease in net position                         | (18,040,652)         |
| Total net position, beginning of year            | <u>95,892,227</u>    |
| Total net position, end of year                  | <u>\$ 77,851,575</u> |

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

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

YEAR ENDED JUNE 30, 2022

|  |                     |
|--|---------------------|
| <b>Cash flows from operating activities:</b>                     |                     |
| Property rental receipts   | \$ 9,332,540        |
| Royalties, licenses, and option fees                             | 4,932,586           |
| Contract and grant receipts                                      | 537,855             |
| Management and general   | 413,514             |
| Administrative fee receipts                                      | 176,716             |
| Total Receipts   | <u>15,393,211</u>   |
| Property rental disbursements                                    | (5,062,267)         |
| Intellectual property disbursements                              | (6,379,677)         |
| Contract and grant disbursements                                 | (299,345)           |
| Total Disbursements  | <u>(11,741,289)</u> |
| Net cash flows from operating activities                         | <u>3,651,922</u>    |
| <b>Cash flows from capital and related financing activities:</b> |                     |
| Acquisition of capital assets                                    | (2,360,227)         |
| Principal payment on note payable                                | (1,434,925)         |
| Finance purchase lease payments                                  | (1,188,149)         |
| Interest paid on notes and finance purchase lease obligations    | (1,434,463)         |
| Net cash flows from capital and related financing activities     | <u>(6,417,764)</u>  |
| <b>Cash flows from investing activities:</b>                     |                     |
| Sale of investments  | 3,501,376           |
| Purchase of investments  | (1,376)             |
| Interest income  | 577,462             |
| Investment income  | 494,056             |
| Net cash flows from investing activities                         | <u>4,571,518</u>    |
| Net change in cash   | 1,805,676           |
| Cash, beginning of year  | <u>3,748,504</u>    |
| Cash, end of year  | <u>\$ 5,554,180</u> |
| Cash:  |                     |
| Unrestricted   | \$ 4,858,346        |
| Restricted   | 695,834             |
|  | <u>\$ 5,554,180</u> |
|  | (continued)         |

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

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

YEAR ENDED JUNE 30, 2022

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(continued)

**Reconciliation of net operating revenues (expenses)**

**to net cash flows from operating activities:**

|   |                     |
|---|---------------------|
| Operating income  | \$ (648,734)        |
| Adjustments to reconcile net operating revenues (expenses) to net cash flows from operating activities: |                     |
| Depreciation and amortization expense   | 3,497,941           |
| Accounts receivable provision for bad debts   | 43,150              |
| Notes and interest receivable provision for net realizable value  | 64,484              |
| Change in assets and liabilities:   |                     |
| Accounts receivable and other receivables   | 1,063,500           |
| Other current assets  | (124,190)           |
| Lease receivables   | (56,032,123)        |
| Deferred inflow on lease receivables  | 56,032,123          |
| Other assets  | 56,401              |
| Accounts payable and accrued liabilities  | (1,210,012)         |
| Due to University of South Florida  | 792,560             |
| Unearned revenue  | 116,822             |
| Net cash flows from operating activities  | <u>\$ 3,651,922</u> |

**Supplemental disclosure of noncash investing activities:**

|                                    |                        |
|------------------------------------|------------------------|
| Net unrealized loss on investments | <u>\$ (18,254,683)</u> |
|------------------------------------|------------------------|

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

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

*JUNE 30, 2022*

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|  | <b>Custodial<br/>Funds</b> |
|--|----------------------------|
| <b>ASSETS</b>  |                            |
| Cash   | \$ 1,501,435               |
| Receivables  | <u>187,985</u>             |
| <b>Total Assets</b>  | <u>1,689,420</u>           |
| <b>LIABILITIES</b>   |                            |
| Accounts payable   | <u>4,612</u>               |
| <b>Total Liabilities</b>   | <u>4,612</u>               |
| <b>FIDUCIARY NET POSITION</b>                                    |                            |
| Restricted for USF Incubator Program                             | 1,215,711                  |
| Restricted for USF Institute for Advanced Discovery & Innovation | 81,847                     |
| Restricted for USF Economic Development                          | 240,344                    |
| Restricted for Graphicstudio                                     | <u>146,906</u>             |
| <b>Total Fiduciary Net Position</b>                              | <u>\$ 1,684,808</u>        |

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

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

*YEAR ENDED JUNE 30, 2022*

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|   | <b>Custodial<br/>Funds</b> |
|---|----------------------------|
| Additions:                                |                            |
| Incubator program revenue                 | \$ 803,017                 |
| Incubator program sponsor support         | 500,000                    |
| Graphicstudio revenue                     | <u>619,006</u>             |
| Total Additions                           | <u>1,922,023</u>           |
| Deductions:                               |                            |
| Transfer cash to University               | 1,000,000                  |
| Program expenditures                      | 311,035                    |
| Graphicstudio expenditures                | 574,762                    |
| Administrative fees                       | <u>127,032</u>             |
| Total Deductions                          | <u>2,012,829</u>           |
| Net decrease in fiduciary net position    | (90,806)                   |
| Fiduciary net position, beginning of year | <u>1,775,614</u>           |
| Fiduciary net position, end of year       | <u><u>\$ 1,684,808</u></u> |

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

# UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

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### Note 1—Organization

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

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

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

All intellectual property developed at the University is reviewed by TTO to determine if the University wishes to retain its rights and interests. On intellectual work that shows the potential for University benefit, TTO obtains patents and copyrights and assumes all costs, to include attorneys’ fees and patent application fees. All rights are retained by the University. The rights, title, and interest in and to the intellectual property are then licensed by the University to the Research Foundation. Patent costs recovered by the Research Foundation are repaid to the University.

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

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

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

JUNE 30, 2022

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**Note 2—Summary of significant accounting policies**

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

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

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

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

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

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

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

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

*Investments and Other Investments* – Investments in money market accounts, short-term bond index funds, equity securities, mutual funds, partnership accounts, and pooled accounts are recorded at fair value, as determined by quoted market prices. Other investments include equity holdings acquired from executed intellectual property agreements and other investments made in support of research efforts. Investments are recorded at fair value. All investment income of the Research Foundation, including changes in the fair value of investments, is reported under nonoperating revenues in the statement of revenues, expenses, and changes in net position.

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

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

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

JUNE 30, 2022

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

*Lease Receivables* – Lease receivables are measured based on payments using the interest method during the respective lease terms. Interest revenue on the lease receivables will be recognized in a systematic manner over the terms of the underlying leases.

*Notes Receivable* – Notes receivable consists of amounts funded to companies through the Seed Capital Accelerator Program (see Note 9) and are recorded at net realizable value. The Research Foundation's policy is to record an initial provision for 50% of the outstanding note balance, and increase the allowance when collection appears unlikely for the estimated net realizable value, given consideration of conversion features associated with the note and specific review of the start-up company.

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

*Right-to-Use Asset* – Right to use asset is recorded as a result of implementing GASB 87. The intangible asset is recorded at an amount equal to the initial measurement of the related lease liability and is amortized on a straight-line basis over the life of the related lease.

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

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

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

*Deferred Inflows of Resources* – In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position related to lease receivables that is applicable to future reporting periods, and will not be recognized as revenue until that time.

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

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

Property rental revenue arising from leases is recognized as revenue in a systematic and rational manner over the lease term. At the inception of a lease where the Research Foundation is the lessor, a lease receivable and a deferred inflow of resources is recognized on the statement of net position.

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

JUNE 30, 2022

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

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

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

*Adoption of GASB 87* - Effective July 1, 2021, the Research Foundation implemented GASB Statement No. 87, *Leases*. GASB 87 establishes standards for accounting and financial reporting for leases by lessors and lessees. As a lessor, the Research Foundation recognizes lease receivables and a deferred inflow of resources on the statement of net position, and will recognize the deferred inflow of resources as revenue in a systematic and rational manner over the term of the respective leases on the statement of changes in net position. As a lessee, the Research Foundation will record a right-to-use asset and a corresponding lease liability on the statement of net position, and will amortize the leased asset on a straight-line basis over the lease term on the statement of changes in net position. The effect on the financial statements as a result of this implementation was to record a lease receivable asset together with a deferred inflow of resources in the amount of \$64,540,144 as well as a right-to-use asset and lease liability in the amount of \$1,409,479 on the statement of net position as of July 1, 2021. There was no effect on net position as a result of this implementation.

*Subsequent Events* – The Research Foundation evaluated all events and transactions that occurred from July 1, 2022 through October 12, 2022, the date the financial statements were available for issuance.

**Note 3—Investments and other investments**

At June 30, 2022, the Research Foundation has the following investments and maturities:

|  | Years                |                      |                     |                   |                   |
|--|----------------------|----------------------|---------------------|-------------------|-------------------|
|  | Fair<br>Market Value | Less Than<br>1       | 1-5                 | 6-10              | More Than<br>10   |
| Money market accounts                    | \$ 2,810,871         | \$ 2,810,871         | \$ -                | \$ -              | \$ -              |
| Short-term corporate<br>bond index funds | 2,508,691            | 35,122               | 2,353,152           | 120,417           | -                 |
| Bonds                                    | 944,721              | -                    | 364,264             | 144,965           | 435,492           |
| Equity securities                        | 3,301,150            | No Maturity          | -                   | -                 | -                 |
| Mutual funds                             | 3,233,219            | No Maturity          | -                   | -                 | -                 |
| Partnership accounts                     | 249,999              | No Maturity          | -                   | -                 | -                 |
| Pooled investments:                      |                      |                      |                     |                   |                   |
| Fixed Income                             | 7,138,030            | 1,487,860            | 5,650,170           | -                 | -                 |
| Equity mutual funds                      | 17,402,898           | 17,402,898           | -                   | -                 | -                 |
| Real assets                              | 3,916,442            | No Maturity          | -                   | -                 | -                 |
| Alternative assets                       | 3,126,836            | No Maturity          | -                   | -                 | -                 |
|  | <u>\$ 44,632,857</u> | <u>\$ 21,736,751</u> | <u>\$ 8,367,586</u> | <u>\$ 265,382</u> | <u>\$ 435,492</u> |

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

JUNE 30, 2022

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

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

The Program pays a monthly dividend based on the results of the Fund. Such dividends can either be withdrawn or reinvested. In addition, with 60-days' notice, the Research Foundation may withdraw either a portion of or its entire investment in the Program; however, the Research Foundation is limited to one withdrawal, other than any monthly dividend, per calendar year. There were no unfunded commitments related to the Program as of June 30, 2022.

*Concentration of Credit Risk* – Concentration of credit risk is the risk of loss attributed to the magnitude of the Research Foundation's investment in a single issuer. The Research Foundation's investment policy provides that the maximum amount that may be invested in the securities of an individual issuer not backed by the full faith and credit of the U.S. government shall not exceed 5% of the market value of its investment portfolio. Direct investments in securities of the U.S. government, government agencies, and State of Florida Investment Pools or Pooled Funds comprised solely of U.S. government securities are not subject to these restrictions.

*Custodial Credit Risk* – Custodial credit risk is the risk of loss attributed to the magnitude of the Research Foundation's investments held by outside parties. At June 30, 2022, the book balances of cash funds were \$7,055,614 and the bank balances were \$8,003,301. The Research Foundation's bank balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Research Foundation from time to time may have amounts in excess of insured limits. At June 30, 2022, the Research Foundation had bank balances of \$7,753,301 in excess of these insured limits.

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

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

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

JUNE 30, 2022

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

At June 30, 2022, the Research Foundation has the following debt instrument quality ratings:

|                       | <b>Fair Market<br/>Value</b> | <b>AAA</b>        | <b>AA</b>         | <b>A</b>            | <b>Less Than<br/>A Rated</b> | <b>Not<br/>Rated</b> |
|-----------------------|------------------------------|-------------------|-------------------|---------------------|------------------------------|----------------------|
| Money market accounts | \$ 2,810,871                 | \$ -              | \$ -              | \$ -                | \$ -                         | \$ 2,810,871         |
| Short-term bond index | 2,508,691                    | 27,596            | 161,811           | 1,167,043           | 1,147,475                    | 4,766                |
| Bonds                 | 944,721                      | 366,338           | 8,087             | 142,167             | 175,810                      | 252,319              |
| Mutual funds          | 3,233,219                    | -                 | -                 | -                   | -                            | 3,233,219            |
| Fixed income          | 7,138,030                    | 570,005           | 75,908            | 290,640             | 2,525,624                    | 3,675,853            |
|                       | <u>\$ 16,635,532</u>         | <u>\$ 963,939</u> | <u>\$ 245,806</u> | <u>\$ 1,599,850</u> | <u>\$ 3,848,909</u>          | <u>\$ 9,977,028</u>  |

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

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

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

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

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

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

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

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

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

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

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

JUNE 30, 2022

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

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

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

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

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

The following table sets forth by level, within the fair value hierarchy, the Research Foundation’s investments carried at fair value as of June 30, 2022.

|  | Total<br>Fair Value  | Fair Value Measurements Using |                   |                   |
|--|----------------------|-------------------------------|-------------------|-------------------|
|  |                      | Level 1                       | Level 2           | Level 3           |
| <b>Investments by fair value level:</b>      |                      |                               |                   |                   |
| Money market accounts                        | \$ 2,810,871         | \$ 2,810,871                  | \$ -              | \$ -              |
| Short-term corporate bond index funds        | 2,508,691            | 2,508,691                     | -                 | -                 |
| Bonds  | 944,721              | -                             | 944,721           | -                 |
| Equity securities                            | 3,301,150            | 3,301,150                     | -                 | -                 |
| Mutual funds                                 | 3,233,219            | 3,233,219                     | -                 | -                 |
| Partnership accounts                         | 249,999              | -                             | -                 | 249,999           |
| <b>Total investments by fair value level</b> | <b>13,048,651</b>    | <b>\$ 11,853,931</b>          | <b>\$ 944,721</b> | <b>\$ 249,999</b> |
| <b>Investments measured at NAV:</b>          |                      |                               |                   |                   |
| Pooled investments                           | 31,584,206           |                               |                   |                   |
| <b>Total investments measured at NAV</b>     | <b>31,584,206</b>    |                               |                   |                   |
| <b>Total investments</b>                     | <b>\$ 44,632,857</b> |                               |                   |                   |

**Note 4—Accounts receivable**

Non fiduciary accounts receivable consist of the following at June 30, 2022:

|                                 |                   |
|---------------------------------|-------------------|
| Royalty and license fees        | \$ 707,902        |
| Property leases                 | 38,263            |
| Allowance for doubtful accounts | (115,325)         |
|                                 | <u>\$ 630,840</u> |

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

JUNE 30, 2022

**Note 5—Lease receivables**

The Research Foundation leases buildings, offices and laboratory space to customers, primarily in the technology research and development industry. Initial lease terms generally range from 36 to 120 months. The leases have discount rates ranging from 1.14% to 3.18%. As a lessor, the Research Foundation recognizes lease receivables and a deferred inflow of resources on the statement of net position. The deferred inflow of resources is recognized as rental revenue in a systematic and rational manner over the terms of the underlying leases. Lease receivables are measured based on payments using the interest method during the respective lease terms.

The schedule of maturities of leases receivable and interest income from leases as of June 30, 2022 are as follows:

| Year        | Total Amount         |                     |                      | Related Party        |                     |                      |
|-------------|----------------------|---------------------|----------------------|----------------------|---------------------|----------------------|
|             | Principal            | Interest            | Total Receipts       | Principal            | Interest            | Total Receipts       |
| 2023        | \$ 7,503,561         | \$ 1,569,771        | \$ 9,073,332         | \$ 6,335,380         | \$ 1,489,166        | \$ 7,824,546         |
| 2024        | 6,006,886            | 1,402,818           | 7,409,704            | 4,874,133            | 1,351,857           | 6,225,990            |
| 2025        | 5,873,531            | 1,249,851           | 7,123,382            | 4,717,878            | 1,227,999           | 5,945,877            |
| 2026        | 5,072,028            | 1,104,722           | 6,176,750            | 4,758,675            | 1,102,822           | 5,861,497            |
| 2027        | 3,540,206            | 983,068             | 4,523,274            | 3,540,206            | 983,068             | 4,523,274            |
| 2028 - 2032 | 18,783,069           | 3,192,757           | 21,975,826           | 18,783,069           | 3,192,757           | 21,975,826           |
| 2033 - 2035 | 10,270,340           | 406,064             | 10,676,404           | 10,270,340           | 406,064             | 10,676,404           |
|             | <u>\$ 57,049,621</u> | <u>\$ 9,909,051</u> | <u>\$ 66,958,672</u> | <u>\$ 53,279,681</u> | <u>\$ 9,753,733</u> | <u>\$ 63,033,414</u> |

**Note 6—Right-to-use asset**

Right-to-use asset for leased office space consist of the following at June 30, 2022:

|                                | Beginning Balance | Additions            | Subtractions | Ending Balance    |
|--------------------------------|-------------------|----------------------|--------------|-------------------|
| Leased asset                   |                   |                      |              |                   |
| Office space                   | \$ -              | \$ 1,409,479         | \$ -         | \$ 1,409,479      |
| Less: accumulated amortization |                   |                      |              |                   |
| Office space                   | -                 | (650,529)            | -            | (650,529)         |
| Total right-to-use asset, net  | <u>\$ -</u>       | <u>\$ 758,950.00</u> | <u>\$ -</u>  | <u>\$ 758,950</u> |

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

JUNE 30, 2022

**Note 7—Capital assets**

Capital assets consist of the following at June 30, 2022:

|   | <u>Beginning<br/>Balance</u> | <u>Increases</u>     | <u>Decreases</u>      | <u>Ending<br/>Balance</u> |
|---|------------------------------|----------------------|-----------------------|---------------------------|
| Capital assets not being depreciated:       |                              |                      |                       |                           |
| Land  | \$ 8,739,633                 | \$ -                 | \$ -                  | \$ 8,739,633              |
| Construction in process                     | 2,432,313                    | 423,375              | (2,432,313)           | 423,375                   |
| Total capital assets not being depreciated  | <u>11,171,946</u>            | <u>423,375</u>       | <u>(2,432,313)</u>    | <u>9,163,008</u>          |
| Capital assets being depreciated:           |                              |                      |                       |                           |
| Buildings                                   | 61,232,925                   | 29,929,723           | -                     | 91,162,648                |
| Equipment                                   | 3,504,551                    | 539,694              | -                     | 4,044,245                 |
| Total capital assets being depreciated      | <u>64,737,476</u>            | <u>30,469,417</u>    | <u>-</u>              | <u>95,206,893</u>         |
| Less accumulated depreciation for:          |                              |                      |                       |                           |
| Buildings                                   | (31,769,303)                 | (2,666,786)          | -                     | (34,436,089)              |
| Equipment                                   | <u>(3,209,416)</u>           | <u>(64,715)</u>      | <u>-</u>              | <u>(3,274,131)</u>        |
| Total accumulated depreciation              | <u>(34,978,719)</u>          | <u>(2,731,501)</u>   | <u>-</u>              | <u>(37,710,220)</u>       |
| Total capital assets being depreciated, net | <u>29,758,757</u>            | <u>27,737,916</u>    | <u>-</u>              | <u>57,496,673</u>         |
| Total capital assets, net                   | <u>\$ 40,930,703</u>         | <u>\$ 28,161,291</u> | <u>\$ (2,432,313)</u> | <u>\$ 66,659,681</u>      |

**Note 8—Developer rights to Research Park**

Other noncurrent assets include development rights for the 87.32 acre USF Research Park of Tampa Bay, formerly known as the University Technology Center of \$8,384,270 net of accumulated amortization of \$1,622,762. The intent of the Board of Trustees of the internal improvement trust fund, when granting these rights, was for a research and development park to be at the entrance to the University campus. While it is expected that the development rights will be renewed beyond the current 2081 expiration, the value of the rights are being amortized on a straight-line basis over 72 years. Annual amortization expense was \$115,911 for fiscal year 2022.

**Note 9—Notes receivable Seed Capital Accelerator Program**

The seed capital accelerator committee was approved by the Board of Directors of the Research Foundation (the "Board") in fiscal year 2014, to assist the Board in fulfilling responsibilities regarding the venture investment fund which had been established by the Board in 1996. The purpose of the venture investment fund had been to assist faculty in development and business activities in which the Research Foundation may participate in future revenues generated from the commercialization of the projects.

The Seed Capital Accelerator Program was designed to support new and existing USF Tampa Bay Technology Incubator program affiliated start-up companies that have been formed, based on the licensing of University technologies.

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

JUNE 30, 2022

**Note 9—Notes receivable Seed Capital Accelerator Program (continued)**

The Seed Capital Accelerator Program provides up to \$50,000 of loan funding to enable start-ups to quickly improve the odds of overcoming immediate obstacles to commercialization that would provide a measurable outcome and return on investment in the near term. The companies execute convertible promissory notes in an aggregate principal amount of up to \$50,000. The maturity date of each note is five years from initial closing date and the interest rate on each note is fixed at an annual rate equal to the Wall Street Journal prime rate plus 3% as of the date of the first advance. There were no new loans funded during the fiscal year ended June 30, 2022.

The net realizable value of notes receivable was \$18,750 as of June 30, 2022, to include current portion of \$12,500 and noncurrent portion of \$6,250. The balances of notes receivable and interest receivable net of reserves is included in other current assets and noncurrent receivables in the statement of net position. Note maturities are as follows:

| <u>Years</u> | <u>Notes<br/>Receivable</u> | <u>Reserve</u>      | <u>Net</u>       |
|--------------|-----------------------------|---------------------|------------------|
| 2023         | \$ 556,997                  | \$ (544,497)        | \$ 12,500        |
| 2024         | 25,000                      | (18,750)            | 6,250            |
|              | <u>\$ 581,997</u>           | <u>\$ (563,247)</u> | <u>\$ 18,750</u> |

  

| <u>Years</u> | <u>Interest<br/>Receivable</u> | <u>Reserve</u>     | <u>Net</u>      |
|--------------|--------------------------------|--------------------|-----------------|
| 2023         | \$ 95,524                      | \$ (93,455)        | \$ 2,069        |
| 2024         | 3,967                          | (2,975)            | 992             |
|              | <u>\$ 99,491</u>               | <u>\$ (96,430)</u> | <u>\$ 3,061</u> |

**Note 10—Accounts payable and accrued liabilities**

Non fiduciary accounts payable and accrued liabilities consist of the following at June 30, 2022:

|                            |                   |
|----------------------------|-------------------|
| Vendors payable            | \$ 322,868        |
| Inventor royalties payable | 372,224           |
| Other payables             | 178,670           |
| Interest payable           | 38,923            |
| Escrow payable             | 20,000            |
|                            | <u>\$ 932,685</u> |

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

JUNE 30, 2022

**Note 11—Lease liability**

In fiscal year 2019 the Research Foundation entered into a five-year lease agreement for office space. The lease agreement qualified as other than a short-term lease under GASB 87 and therefore a lease obligation has been recorded at the present value of the future minimum lease payments expected to be made during the lease term. Future lease payments were discounted at an estimated incremental borrowing rate of 3.5%. The lease expires in fiscal year 2024.

Future minimum lease payments to be paid under the noncancelable lease and the net present value of these payments are as follows for the fiscal years ending June 30:

| <u>Years</u> | <u>Principal</u>  | <u>Interest</u>  | <u>Total<br/>Payments</u> |
|--------------|-------------------|------------------|---------------------------|
| 2023         | \$ 665,811        | \$ 16,714        | \$ 682,525                |
| 2024         | 113,743           | 498              | 114,241                   |
|              | <u>\$ 779,554</u> | <u>\$ 17,212</u> | <u>\$ 796,766</u>         |

**Note 12—Long-term debt**

The Research Foundation has an outstanding note from direct borrowings related to business-type activities in the amount of \$13,830,000 at June 30, 2022. The outstanding note from direct borrowings contains an event of default that changes the timing of repayment of outstanding amounts to become immediately due if the Research Foundation is unable to make payment or fails to perform any covenant, condition, or agreement under the master loan or credit agreements.

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

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

At June 30, 2022, \$695,834 is on deposit with the bank in a sinking fund account for payment of the annual principal payment. This amount has been reported as restricted cash on the statement of net position.

Changes in long-term debt for the year ended June 30, 2022 are as follows:

|                    | <u>June 30, 2021</u> | <u>Increases</u> | <u>Reductions</u>   | <u>June 30, 2022</u> | <u>Amount Due<br/>Within<br/>One Year</u> |
|--------------------|----------------------|------------------|---------------------|----------------------|---|
| Note payable:      |                      |                  |                     |                      |   |
| 2013-B             | \$ 14,635,000        | \$ -             | \$ (805,000)        | \$ 13,830,000        | \$ 835,000                                |
| Total note payable | <u>\$ 14,635,000</u> | <u>\$ -</u>      | <u>\$ (805,000)</u> | <u>\$ 13,830,000</u> | <u>\$ 835,000</u>                         |

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

JUNE 30, 2022

**Note 12—Long-term debt (continued)**

The following is a schedule of maturities and interest expense:

| <u>Years</u> | <u>Maturities</u>    | <u>Interest</u>     |
|--------------|----------------------|---------------------|
| 2023         | \$ 835,000           | \$ 415,454          |
| 2024         | 870,000              | 387,881             |
| 2025         | 905,000              | 359,194             |
| 2026         | 940,000              | 329,395             |
| 2027         | 975,000              | 298,483             |
| 2028 - 2032  | 5,480,000            | 984,263             |
| 2033 - 2035  | 3,825,000            | 134,951             |
|              | <u>\$ 13,830,000</u> | <u>\$ 2,909,621</u> |

Future obligations of interest expense are based on the fixed rate in effect as of June 30, 2022, and may not be representative of actual rates in those later periods.

Interest expense for the 2013-B Note was \$448,107 in fiscal year 2022.

**Note 13—Financed purchase lease obligations**

The Research Foundation entered into a lease agreement with another DSO of the University in fiscal year 2019, under which ownership of the University Diagnostic Institute (“UDI”) building will transfer to the Research Foundation when all terms of the lease agreement are met. A capital asset was recorded in the amount of \$3,505,606 in fiscal year 2019. Amortization of the leased building is included with depreciation expense. Interest expense for the finance purchase lease obligation was \$124,228 in fiscal year 2022. The building is subleased to a nonrelated party.

In fiscal year 2020, the Research Foundation entered into a credit agreement with another DSO of the University and a bank for construction of a mixed use laboratory and office building (“3814 Spectrum”). The 3814 Spectrum building is located in the USF Research Park on real property subleased by Research Foundation to the other DSO under a ground sublease agreement, and leased back to the Research Foundation by the other DSO under a master lease agreement. Under terms of the lease agreement, ownership of the property and improvements will transfer to the Research Foundation when all terms of the lease agreement are met. In fiscal year 2022, a capital asset and finance purchase lease obligation was recorded. Under terms of the master lease agreement, base rent equal to the monthly interest cost commenced in January 2020. Interest expense for the finance purchase lease obligation was \$824,839 in fiscal year 2022. There was no leasing activity in fiscal year 2022.

Pursuant to the credit agreement, the Research Foundation has committed to provide equity of approximately \$15,000,000 towards the cost of the 3814 Spectrum building. To provide security to the other DSO and the bank, the Research Foundation will assign the leases and lease revenue from the 3814 Spectrum building. Leases and lease revenue from buildings 3650, 3702, and 3802 Spectrum were also assigned to the bank.

In fiscal year 2020, the Research Foundation was required by the credit agreement to fund a debt service reserve fund in the amount of \$1,983,334 to be held by the bank as security for the 3814 Spectrum loan and note executed by the other DSO. In addition thereto, the master lease agreement executed with the other DSO required the Research Foundation to pay \$530,583 debt service coverage factor in fiscal year 2020 to the bank. The combined payments of \$2,513,917 are included as a noncurrent asset in the statement of net position.

The Research Foundation intends to use the leased assets for its entire estimated useful life and depreciates similar capital assets using the straight-line method.

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

JUNE 30, 2022

**Note 13—Financed purchase lease obligations (continued)**

Changes in the financed purchase lease obligations for the year ended June 30, 2022 are as follows:

|                          | <u>June 30, 2021</u> | <u>Increases</u>     | <u>Reductions</u>     | <u>June 30, 2022</u> | <u>Amounts Due<br/>Within<br/>One Year</u> |
|--------------------------|----------------------|----------------------|-----------------------|----------------------|--|
| UDI building             | \$ 2,983,496         | \$ -                 | \$ (251,741)          | \$ 2,731,755         | \$ 262,860                                 |
| 3814 Spectrum building   | -                    | 26,100,252           | (936,408)             | 25,163,844           | 974,556                                    |
| Total financed purchases | <u>\$ 2,983,496</u>  | <u>\$ 26,100,252</u> | <u>\$ (1,188,149)</u> | <u>\$ 27,895,599</u> | <u>\$ 1,237,416</u>                        |

The following is a schedule of future minimum lease payments under the financed purchase lease obligations together with the present value of the minimum lease payments as of June 30, 2022:

| <u>Year</u>                  | <u>Principal</u>     | <u>Interest</u>     | <u>Total</u>      |
|------------------------------|----------------------|---------------------|-------------------|
| 2023                         | \$ 1,237,416         | \$ 907,201          | \$ 2,144,617      |
| 2024                         | 1,288,735            | 863,590             | 2,152,325         |
| 2025                         | 1,342,186            | 818,163             | 2,160,349         |
| 2026                         | 1,397,853            | 770,843             | 2,168,696         |
| 2027                         | 1,455,818            | 721,553             | 2,177,371         |
| 2028 - 2032                  | 7,750,739            | 2,745,287           | 10,496,026        |
| 2033 - 2037                  | 7,881,084            | 1,545,945           | 9,427,029         |
| 2038 - 2040                  | 5,541,768            | 272,248             | 5,814,016         |
| Total minimum lease payments | <u>\$ 27,895,599</u> | <u>\$ 8,644,830</u> | <u>36,540,429</u> |

**Note 14—Property rental revenues**

Investments in assets subject to leases are as follows at June 30, 2022:

|   |                      |
|---|----------------------|
| Buildings, at cost                                    | \$ 90,848,359        |
| Accumulated depreciation                              | <u>(33,842,785)</u>  |
| Net investments in assets subject to operating leases | <u>\$ 57,005,574</u> |

Depreciation expense related to the buildings leased to other parties was \$2,624,445 for fiscal year 2022.

Lease related revenues recognized for the year ended June 30, 2022 are as follows:

|                          |                      |
|--------------------------|----------------------|
| Lease revenue            |                      |
| Buildings                | \$ 4,993,683         |
| Office space             | 4,105,512            |
| Variable and other rents | <u>535,178</u>       |
| Total rental revenue     | 9,634,373            |
| Interest income          | <u>1,732,796</u>     |
|                          | <u>\$ 11,367,169</u> |

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

*JUNE 30, 2022*

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**Note 15—Related party transactions**

The University leases a building from the Research Foundation, under a master lease agreement through 2036 or the expiration of the long-term debt, if earlier (see Note 12). In addition thereto, other research laboratories, office space and a building are leased to the University under leases which expire through fiscal year 2027. Total rent revenues from the University were \$8,176,005 for fiscal year 2022.

The Research Foundation invoices intellectual property licensees for reimbursement of patent costs that are due to the University. Total amounts invoiced in fiscal year 2022 of \$598,325 for patent costs recovery are not reflected in the accompanying statement of revenues, expenses, and changes in net position. Patent costs recovered from intellectual property cash receipts of \$730,799 were remitted by the Research Foundation to the University in fiscal year 2022. A net liability of \$138,599 for accrued patent costs due to the University, less outstanding receivables from licensees for reimbursement of costs, are included in the due to University of South Florida payable in the statement of net position.

In accordance with agreements, the Research Foundation has administrative responsibility for post-award management of certain non-clinical contracts and grants on behalf of the University. Post-award management includes processing sponsor invoicing and related expenditures for those contracts and grants. In fiscal year 2022, the Research Foundation processed \$338,192 of grant expenditures, of which \$206,212 were disbursements made to the University. These contract and grant revenues and expenditures are not reflected in the accompanying statement of revenues, expenses, and changes in net position. When permitted by the agreement, an administrative fee is charged for processing expenditures, and is recognized as administrative fee revenue.

The Research Foundation recognized administrative fee revenue in the amount of \$33,609 for the post-award management services in fiscal year 2022. The custodial fund balance for the University grant agreements of \$520,740 is included in the due to University payable in the statement of net position.

By agreement with the University, the Research Foundation has custodial responsibility of proceeds received from sales of Graphicstudio artwork and processes disbursement of Graphicstudio's business expenditures. An administrative fee is charged for processing transactions and is recognized as administrative fee revenue. The Research Foundation recognized administrative fee revenue in the amount of \$42,621 for these services in fiscal year 2022. Graphicstudio's net position of \$146,906 at June 30, 2022 is included in the statement of fiduciary net position.

On behalf of the University, the Research Foundation processes tenant rents and sponsor support for the USF Incubator Program. The Research Foundation also processes certain Incubator program expenditures, in addition to transferring available funds to the University for program expenditures that are directly managed by the University. An administrative fee is charged for processing transactions and is recognized as administrative fee revenue. The Research Foundation recognized \$84,410 administrative fee revenue for these services in fiscal year 2022. The net position for the USF Incubator Program of \$1,215,711 at June 30, 2022 is included in the statement of fiduciary net position.

Included in the due to University of South Florida payable in the statement of net position as of June 30, 2022 are Research funds held on behalf of University faculty, department, and colleges in the amount of \$4,731,572 that will be utilized to support their research and education activities. The Research Foundation distributes royalties from intellectual property net revenue to these research funds. During fiscal year 2022, the Research Foundation recognized royalty distribution expense of \$418,023 and \$300,035, respectively, to University departments and colleges' research funds, of which \$565,115 and \$505,122, respectively, were distributed. Accrued royalties payable of \$179,409 are included in the due to University payable in the statement of net position.

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

*JUNE 30, 2022*

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**Note 15—Related party transactions (continued)**

The due to University of South Florida payable also includes \$736,445 accrued payable to research funds related to equity holdings acquired from executed intellectual property agreements. The accrued payable is based on fair value of the equity securities as of June 30, 2022, and is distributable upon the sale of the stocks.

Under agreements with the University, the Research Foundation is engaged to manage renovations of research facilities to support University research within the USF Research Park. At June 30, 2022, funding received in excess of costs incurred of \$1,148,291 is included in the due to University payable in the statement of net position.

All personnel of the Research Foundation are employees of the University with employee benefits and compensated absences accounted for on the University's books. The University tracks, administers, and reports all payroll and fringe benefit costs for Research Foundation personnel, which are then reimbursed to the University by the Research Foundation. In fiscal year 2022, salary and fringe benefit costs were \$1,142,832.

## **SUPPLEMENTAL INFORMATION**

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

YEAR ENDED JUNE 30, 2022

|   | <b>Program<br/>Services</b> | <b>Management<br/>and General</b> | <b>Total</b>         |
|---|-----------------------------|-----------------------------------|----------------------|
| Depreciation Expense                                  | \$ 2,699,240                | \$ 32,261                         | \$ 2,731,501         |
| Repairs and Maintenance                               | 2,409,446                   | 39,579                            | 2,449,025            |
| Royalty Expense                                       | 2,196,740                   | -                                 | 2,196,740            |
| University Support - Technology Transfer Office Costs | 2,169,203                   | -                                 | 2,169,203            |
| Utilities   | 1,511,096                   | -                                 | 1,511,096            |
| Salary and Wages                                      | 606,130                     | 421,294                           | 1,027,424            |
| Amortization Expense                                  | 766,441                     | -                                 | 766,441              |
| Technology Licensing Costs and Other                  | 580,535                     | -                                 | 580,535              |
| Insurance   | 329,258                     | 10,639                            | 339,897              |
| Fringe Benefits                                       | 172,382                     | 154,339                           | 326,721              |
| Professional Fees                                     | 56,532                      | 124,187                           | 180,719              |
| Independent Contractors                               | 98,951                      | 13,500                            | 112,451              |
| Bad Debt Expense                                      | 107,634                     | -                                 | 107,634              |
| Materials and Supplies                                | 38,884                      | 11,957                            | 50,841               |
| Telephone   | 34,835                      | 11,064                            | 45,899               |
| Real Estate Tax                                       | 27,765                      | -                                 | 27,765               |
| Grant Administrative Fees                             | 17,002                      | -                                 | 17,002               |
| Advertising   | 8,361                       | -                                 | 8,361                |
| Lease Commissions                                     | 7,963                       | -                                 | 7,963                |
| Bank Fees   | 2,380                       | 1,462                             | 3,842                |
| Travel  | 3,480                       | -                                 | 3,480                |
| Subscriptions and Memberships                         | 2,665                       | 679                               | 3,344                |
| Participant Stipends and Tuition                      | 1,410                       | -                                 | 1,410                |
| Postage and Freight                                   | -                           | 1,162                             | 1,162                |
| Printing Costs  | -                           | 394                               | 394                  |
| Total Operating Expenses                              | <u>\$ 13,848,333</u>        | <u>\$ 822,517</u>                 | <u>\$ 14,670,850</u> |

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of the University of South Florida Research Foundation, Inc. (the “Research Foundation”), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Research Foundation’s basic financial statements, and have issued our report thereon dated October 12, 2022.

**Report on Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Research Foundation’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of This Report**

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

*Cherry Bekasart LLP*

Tampa, Florida  
October 12, 2022