

UNIVERSITY OF SOUTH FLORIDA
RESEARCH FOUNDATION, INC.
(A Component Unit of the

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Report of Independent Auditor

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2023, 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.



Tampa, Florida
October 20, 2023

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

JUNE 30, 2023

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, 2023, and should be read in conjunction with the financial statements and notes thereto. 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 \$176.7 million at June 30, 2023. This balance reflects a decrease of \$8.3 million (4.5%) from total assets of \$185.0 million at June 30, 2022. Total liabilities decreased \$1.0 million (1.9%) to \$50.1 million at June 30, 2023 from total liabilities of \$51.1 million at June 30, 2022. Deferred inflows of resources decreased \$6.8 million (12.2%) to \$49.2 million at June 30, 2023 from \$56.0 million at June 30, 2022. The Research Foundation's net position decreased by \$490 thousand (0.6%), resulting in a year-end balance of \$77.4 million at June 30, 2023.

Operating revenues were \$11.7 million in fiscal year 2023 for a decrease of \$2.3 million (16.4%) from \$14.0 million in the prior fiscal year. Operating expenses of \$15.2 million in fiscal year 2023 increased by \$533 thousand (3.6%) from \$14.7 million in fiscal year 2022. An operating loss of \$3.5 million in fiscal year 2023 reflects an increase of \$2.8 million (437.4%) from fiscal year 2022 operating loss of \$649 thousand.

Net nonoperating revenue was \$3.0 million in fiscal year 2023, for an increase of \$20.4 million (117.2%) from fiscal year 2022 net nonoperating expense of \$17.4 million. For fiscal year 2023, the decrease in net position was \$490 thousand, compared to a decrease in net position of \$18.0 million for fiscal year 2022.

Overview of Financial Statements

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, liabilities, and deferred inflows of resources 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.

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

JUNE 30, 2023

Condensed Statements of Net Position

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

	2023	2022	
ASSETS			
Current assets	\$ 52,908,406	\$ 57,902,971	
Restricted cash	3,238,917	3,209,751	
Capital assets, net	76,174,065	74,180,139	
Noncurrent lease receivables	44,237,213	49,546,060	
Other noncurrent assets	124,953	145,079	49,53-7.4

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

JUNE 30, 2023

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>2023</u>	<u>2022</u>
Operating revenues	\$ 11,717,917	\$ 14,022,116
Operating expenses	<u>15,204,158</u>	<u>14,670,850</u>
Operating loss	(3,486,241)	(648,734)
Net nonoperating revenue (expense)	<u>2,995,873</u>	<u>(17,391,918)</u>
Decrease in net position	(490,368)	(18,040,652)
Net position, beginning of year	<u>77,851,575</u>	<u>95,892,227</u>
Net position, end of year	<u>\$ 77,361,207</u>	<u>\$ 77,851,575</u>

Operating Revenues

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

	<u>2023</u>	<u>2022</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Property rental revenues as invoiced to tenants	\$ 10,009,998	\$ 10,211,834	\$ (201,836)	-2.0%
Less interest income	<u>(882,758)</u>	<u>(577,461)</u>	<u>(305,297)</u>	52.9%
Property rental revenues	<u>9,127,240</u>	<u>9,634,373</u>	<u>(507,133)</u>	-5.3%
Royalties, licenses, and option fees	<u>2,264,087</u>	<u>3,868,344</u>	<u>(1,604,257)</u>	-41.5%
Contracts and grants	150,818	342,683	(191,865)	-56.0%
Administrative fees	<u>175,772</u>	<u>176,716</u>	<u>(944)</u>	-0.5%
Total Operating Revenues	<u>\$ 11,717,917</u>	<u>\$ 14,022,116</u>	<u>\$ (2,304,199)</u>	-16.4%

Property rental revenues were \$9.1 million in fiscal year 2023 for a decrease of \$507 thousand (5.3%) from the prior fiscal year reported revenue. A component of lease receivables will include interest income. The decrease in property rents as invoiced to tenants of \$202 thousand (2.0%) was due to a decrease in recovery of operating costs.

Operating revenues from royalties, licenses and option fees excluding license fees attributed to non-cash equity transactions, decreased \$1.6 million (41.5%) in fiscal year 2023. Decrease primarily attributed to transactions which originated from intellectual property license agreements in fiscal year 2022 that did not reoccur in fiscal year 2023.

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

JUNE 30, 2023

Operating Expenses

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

	2023	2022	Increase (Decrease)	% Change
Property rental expenses	\$ 9,293,068	\$ 8,449,157	\$ 843,911	10.0%
University support - IP costs	3,298,798	2,169,203	1,129,595	52.1%
Inventor royalties	843,686	1,438,488	(594,802)	-41.3%
Inventing department and other royalties	452,086	758,252	(306,166)	-40.4%
Intellectual property costs	279,316	626,066	(346,750)	-55.4%
Contracts and grants	150,818	342,683	(191,865)	-56.0%
Seed capital expense	21,811	64,484	(42,673)	-66.2%
Management and general	864,575	822,517	42,058	5.1%
Total Operating Expenses	\$ 15,204,158	\$ 14,670,850	\$ 533,308	3.6%

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

JUNE 30, 2023

Nonoperating Revenues and Expenses

Certain revenue sources including investment income and interest income are defined 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 2023 and 2022 fiscal years:

	2023	2022	Change	% Change
Nonoperating Revenue (Expense):				
Investment (loss) income	\$ 2,760,771	\$ (17,696,629)	\$ 20,457,400	-115.6%
Interest income	1,578,563	1,739,314	(160,751)	-9.2%
Interest expense	(1,343,461)	(1,434,603)	91,142	-6.4%
Total Net Nonoperating Revenue (Expense)	<u>\$ 2,995,873</u>	<u>\$ (17,391,918)</u>	<u>\$ 20,387,791</u>	-117.2%

Nonoperating investment income of \$2.8 million was recorded in fiscal year 2023. The income included \$531 thousand unrealized loss to reflect the fiscal year 2023 decrease in fair value of equity securities acquired pursuant to intellectual property license agreements. This loss was offset by investment income of \$3.3 million which reflects the increased market performance of the investment portfolio in fiscal year 2023.

Nonoperating interest income of \$1.6 million to record interest revenue on the lease receivables for fiscal year 2023 was recorded in fiscal year 2022 which was a decrease of \$161 thousand from the \$1.7 million recorded in fiscal year 2022.

Nonoperating interest expense of \$1.3 million in fiscal year 2023 decreased \$91 thousand (6.4%) from fiscal year 2022. Interest costs include debt service for the note payable of \$421 thousand, \$794 thousand for the financed purchase obligation of the newly constructed mixed use laboratory and office building that is located in the USF Research Park, \$113 thousand for the finance purchase obligation of the UDI building and \$15 thousand for the office space lease obligation.

Condensed Statements of Cash Flows

The following summarizes cash flows for the 2023 and 2022 fiscal years:

	2023	2022
Cash flows from:		
Operating activities	\$ 1,796,567	\$ 3,651,922
Capital and related financing activities	(9,518,778)	(6,417,764)
Investing activities	<u>5,384,174</u>	<u>4,571,518</u>
Net (decrease) increase in cash	(2,338,037)	1,805,676
Cash, beginning of year	<u>5,554,180</u>	<u>3,748,504</u>
Cash, end of year	<u>\$ 3,216,143</u>	<u>\$ 5,554,180</u>

Fiscal year 2023 generated positive cash flow from operations of \$1.8 million, for a decrease of \$1.9 million (50.8%) from fiscal year 2022 operating activities which generated \$3.7 million. The decrease in operating cash flow was caused by \$2.7 million decrease in net cash flow from intellectual property activities in fiscal year 2023

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

JUNE 30, 2023

Capital Assets

At June 30, 2023, the Research Foundation had \$120.8 million in capital assets, less accumulated depreciation of \$44.6 million, for net capital assets of \$76.2 million. Depreciation expense of \$3.8 million represents a \$1.1 million (40.3%) increase from the prior fiscal year balance of \$2.7 million due to the depreciation expense on fixed assets of 3814 Spectrum being placed into service at the end of the fiscal year ended June 30, 2022.

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

	<u>2023</u>	<u>2022</u>
Land	\$ 8,739,633	\$ 8,739,633
Construction in process	6,405,088	423,375
Buildings, net	53,069,191	56,726,559
Equipment, net	1,206,134	770,114
Right-of-use asset, net	108,422	758,950
Developer rights to Research Park, net	6,645,597	6,761,508
Total capital assets, net	<u>\$ 76,174,065</u>	<u>\$ 74,180,139</u>

As of June 30, 2023, the Research Foundation had right-to-use asset of \$1,409,479 less accumulated amortization of \$1,301,057 for right-to-use asset, net of \$108,422.

Debt Administration

At June 30, 2023, the Research Foundation had \$39.7 million in outstanding debt representing a decrease of \$2.8 million (7.1%) from the prior fiscal year balance of \$42.5 million. The decrease in debt resulted from the principal payments of \$2.1 million on previously recorded debt and the office space lease liability of \$667 thousand.

Economic Factors That Will Affect The Future

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

YEAR ENDED JUNE 30, 2023

Operating Revenues:	
Property rental revenues	\$ 9,127,240
Royalties, licenses, and option fees	2,264,087
Contracts and grants	150,818
Administrative fees	175,772
Total Operating Revenues	11,717,917
Operating Expenses:	
Property rental expenses	9,293,068
University support - intellectual property costs	3,278,792
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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, 2023

Cash flows from operating activities:

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, 2023

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

YEAR ENDED JUNE 30, 2023

	Custodial Funds
Additions:	
Incubator program revenue	\$ 940,012
Incubator program sponsor support	700,000
Graphicstudio revenue	709,982

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, 2023

Note 1—Organization

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

JUNE 30, 2023

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.

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

JUNE 30, 2023

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.

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

Capital Assets – Purchased capital assets are recorded at cost. Donated capital assets are recorded at acquisition value at the date of the donation. Buildings are depreciated on a straight-line basis using estimated useful lives generally ranging from 30 to 39.5 years. Consistent with University policy, depreciation of research buildings is based on componentization over the estimated useful life of its components which range from 15 to 40 years. Equipment is depreciated on a straight-line basis over its estimated useful life of 5 to 10 years.

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

JUNE 30, 2023

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.

Subsequent Events – The Research Foundation evaluated all events and transactions that occurred from July 1, 2022 through October 20, 2023, the date the financial statements were available for issuance.

Note 3—Investments and other investments

At June 30, 2023, the Research Foundation has the following investments and maturities:

	Fair Market Value	Less Than 1	1-5	6-10	More Than 10
Money market accounts	\$ 2,874,262	\$ 2,874,262	\$ -	\$ -	\$ -
Short-term corporate bond index funds	746,308	10,448	700,037	35,823	-
Bonds	565,935	-	203,565	57,102	305,267
Equity securities	2,301,380	No Maturity	-	-	-
Mutual funds	1,876,870	No Maturity	-	-	-
Partnership accounts	579,002	No Maturity	-	-	-
Pooled investments:					
Fixed income	7,132,748	1,663,259	5,469,489	-	-

Equity (1,377,488) Tj -0.0033 Tc 0.0056 Tw 07.637 0 Td ()Tj 74.69irAn36 0 Td [6T 0.3 Td [6T 377748

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

JUNE 30, 2023

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 (s)-3 ens tctn F3 dy2143dloueeatind [(atis5

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

JUNE 30, 2023

Note 3—Investments and other investments (continued)

At June 30, 2023, the Research Foundation has the following debt instrument quality ratings:

	Fair Market Value	AAA	AA	A	Less Than A Rated	Not Rated
Money market accounts	\$ 2,874,262	\$ -	\$ -	\$ -	\$ -	\$ 2,874,264
Short-term bond index	746,308	8,209	48,137	347,182	341,361	1,418
Bonds	565,935	212,568	6,059	79,634	81,518	186,156
Mutual funds	1,876,870	-	-	-	-	1,876,870
Fixed income	7,132,748	2,074,543	67,874	335,669	2,307,378	2,347,284
	<u>\$ 13,196,123</u>	<u>\$ 2,295,320</u>	<u>\$ 122,070</u>	<u>\$ 762,485</u>	<u>\$ 2,730,257</u>	<u>\$ 7,285,992</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 1

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 based on observable market data.

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

JUNE 30, 2023

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, 2023.

	Total Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Money market accounts	\$ 2,874,262	\$ 2,874,262	\$ -	\$ -
Short-term corporate bond index funds	746,308	746,308	-	-
Bonds	565,935	-	565,935	-
Equity securities	2,301,380	2,301,380	-	-
Mutual funds	1,876,870	1,876,870	-	-
Partnership accounts	579,002	-	-	579,002
Total investments by fair value level	<u>8,943,757</u>	<u>\$ 7,798,820</u>	<u>\$ 565,935</u>	<u>\$ 579,002</u>
Investments measured at NAV:				
Pooled investments	<u>33,645,037</u>			
Total investments measured at NAV	<u>33,645,037</u>			
Total investments	<u>\$ 42,588,794</u>			

Note 4—Accounts receivable

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

JUNE 30, 2023

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 straight-line basis 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, 2023 are as follows:

<u>Year</u>	Principal	Interest	Total Receipts	Principal	Interest	Total Receipts
2024	\$ 6,695,554	\$ 1,421,432	\$ 8,116,986	\$ 5,125,400	\$ 1,356,651	\$ 6,482,051
2025	6,396,884	1,257,981	7,654,865	4,787,886	1,231,389	6,019,275
2026	5,134,123	1,107,011	6,241,134	4,830,851	1,105,129	5,935,981
2027	3,614,607	984,267	4,598,874	3,614,607	984,267	4,598,874
2028	3,546,447	873,228	4,419,675	3,546,447	873,228	4,419,675

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

JUNE 30, 2023

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

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

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

JUNE 30, 2023

Note 13—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 \$7,580,123 for fiscal year 2023.

The Research Foundation invoices intellectual property licensees for reimbursement of patent costs that are due to the University. Total amounts invoiced in fiscal year 2023 of \$715,220 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 \$810,483 are recorded in accounts payable as due to the University at June 30, 2023. An additional net liability of \$96,264 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. Table of Contents-2.7 (count)(s) from

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

JUNE 30, 2023

Note 13—Related party transactions (continued)

The due to University of South Florida payable also includes \$434,515 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, 2023, 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, 2023, funding received in excess of costs incurred of \$225,468 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 2023, salary and fringe benefit costs were \$1,249,560.

SUPPLEMENTAL INFORMATION

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

YEAR ENDED JUNE 30, 2023

	Program Services	Management and General	Total
Depreciation expense	\$ 3,800,750	\$ 32,261	\$ 3,833,011
Repairs and maintenance	1,690,956	38,512	1,729,468
Royalty expense	1,295,793	-	1,295,793
University support - technology transfer office costs	3,298,798	-	3,298,798
Utilities	1,756,573	-	1,756,573
Salary and wages	537,430	480,549	1,017,979
Amortization expense	766,440	-	766,440
Technology licensing costs and other	261,845	-	261,845
Insurance	436,305	11,655	447,960
Fringe benefits	175,381	169,880	345,261
Professional fees	146,122	96,843	242,965
Independent contractors	10,025	1,960	11,985
Bad debt expense	31,866	-	31,866
Materials and supplies	-	-	-

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.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2023

2023-01 Significant Deficiency in Internal Controls over the Financing Reporting Process

Criteria: The Research Foundation is responsible for establishing and maintaining internal controls over its financial reporting including the timely and accurate closing of the financial reporting process at year-end.

Condition: During the audit, it was discovered that contractor invoices for work performed prior to year-end, were not properly recognized in the finance records at June 30, 2023 in accordance with generally accepted accounting principles.

Cause: The accounting policies in place did not address procedures and controls to ensure construction invoices were properly recognized in the appropriate period.

Effect: An audit adjustment was made to appropriately recognize construction in progress and accounts payable related to construction invoices in the amount of approximately \$1,100,000.