



Financial Statements and Other Information

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

Years Ended June 30, 2020 and 2019

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Financial Statements and Other Information

Years Ended June 30, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of The University of Central Florida Research Foundation, Inc. (the Research Foundation), a component unit of The University of Central Florida, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Research Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Research Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Research Foundation's internal control. Accordingly, we express no such opinion. An audit also

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of Central Florida Research Foundation, Inc. as of June 30, 2020 and 2019, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information: Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2020 on our consideration of the Research Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Research Foundation's internal control over financial reporting and compliance.

PYA, P.C.

Tampa, Florida
August 27, 2020

Management's Discussion and Analysis

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Management's Discussion and Analysis

The University of Central Florida Research Foundation's (the Research Foundation), a direct support organization of the University of Central Florida (the University or UCF), management prepared the following discussion and analysis of the Research Foundation's financial statements, as of and for the years ended June 30, 2020 and 2019. This discussion and analysis is intended to serve as an introduction to the Research Foundation's basic financial statements. It should be read in conjunction with the basic financial statements and notes thereof.

The report consists of the following:

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

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

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

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

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

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

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Management's Discussion and Analysis - Continued

FINANCIAL HIGHLIGHTS

Net Position: The statements of net position report all financial resources of the Research Foundation as of the end of the fiscal year. Net position over time can be a useful indicator of an entity's financial position. The Research Foundation's assets exceed liabilities as of June 30, 2020 and 2019 by \$8,657,952 and \$6,834,384, respectively. Those amounts include the net position which was temporarily restricted as of June 30, 2020 and 2019 of \$1,821,076 and \$1,144,876, respectively. The following schedule is a summary of the Research Foundation's statements of net position.

STATEMENTS OF NET POSITION

	<i>June 30,</i>	
	<i>2020</i>	<i>2019</i>
ASSETS		
Current assets	\$ 21,010,868	\$ 17,542,730
Noncurrent assets	306,508	969,163
TOTAL ASSETS	\$ 21,317,376	\$ 18,511,893
LIABILITIES		
Current liabilities	\$ 12,659,424	\$ 11,677,509
TOTAL LIABILITIES	\$ 12,659,424	\$ 11,677,509
NET POSITION		
Unrestricted	\$ 6,836,876	\$ 5,689,508
Temporarily restricted	1,821,076	1,144,876
TOTAL NET POSITION	\$ 8,657,952	\$ 6,834,384

During fiscal year 2020, total assets increased by \$2,805,483 primarily due to an increase in cash of \$44,877, an increase in Due from UCF of \$5,539,128 and offset by an investment decrease of \$662,655, a decrease in accounts receivable of \$2,081,915, and a decrease in prepaid expenses of \$33,952. Total liabilities increased by \$981,915 due to an increase in restricted cash for contracts, grants, restricted contributions, other agreements, and research initiatives of \$1,855,650 offset by a decrease of other additional payables of \$873,735.

A portion of the Due from UCF is restricted for use on contracts, grants, donations and other agreements. In fiscal year 2020, this amount was \$8,577,604.

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

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Management's Discussion and Analysis - Continued

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

	<u>2020</u>	<u>2019</u>
UNRESTRICTED NET POSITION		
Operating revenue	\$ 11,811,176	\$ 11,705,979
Net position released from restrictions	1,279,648	1,076,654
Operating expenses	(12,512,165)	(12,630,768)
OPERATING INCOME	578,659	151,865
NON-OPERATING REVENUE	568,709	153,501
INCREASE IN NET POSITION	1,147,368	305,366
NET POSITION, BEGINNING OF YEAR	5,689,508	5,384,142
UNRESTRICTED NET POSITION, END OF YEAR	<u>\$ 6,836,876</u>	<u>\$ 5,689,508</u>
TEMPORARILY RESTRICTED NET POSITION		
Restricted contribution revenue	\$ 1,955,848	\$ 1,307,256
Net position released from restrictions	(1,279,648)	(1,076,654)
INCREASE IN NET POSITION	676,200	230,602
TEMPORARILY RESTRICTED NET POSITION, BEGINNING OF YEAR	1,144,876	914,274
TEMPORARILY RESTRICTED NET POSITION, END OF YEAR	<u>\$ 1,821,076</u>	<u>\$ 1,144,876</u>

Analysis of Operating Revenue: Operating revenue includes royalties, contracts and grants, other agreements, and research initiatives. In fiscal year 2020, operating revenue and net position released from restrictions was greater than fiscal year 2019 by \$308,191 due to an increase in contracts and grants income, other miscellaneous income and net position released from restrictions of \$2,030,837 netted with a decrease in royalties and licensing fees, royalty loss on investment, other agreements, and research initiatives of \$1,722,646.

Analysis of Non-operating Revenue (Expenses): Non-operating revenue (expenses) consists of interest, investment gains and losses, and dividends. In fiscal year 2020, non-operating revenue (expense) was greater than fiscal year 2019 by \$415,208 due to an increase in investment revenue of \$417,345 offset by a negative change in gain (loss) on investments of \$2,137.

Analysis of Temporarily Restricted Net Position: The temporarily restricted net position is a result of donations or contributions received during the year which are restricted by the donor for a specific purpose, such as research by a professor. The temporarily restricted net position is restricted for the general purpose of research activities. Restricted net position is released from restrictions and transferred to unrestricted net position when all donor or principal investigator

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Management's Discussion and Analysis - Continued

provisions have been met. Total restricted contribution revenue received during fiscal year 2020 was \$1,955,848 compared to \$1,307,256 received in fiscal year 2019.

ANALYSIS OF OPERATING EXPENSES

	<u>2020</u>	<u>2019</u>
OPERATING EXPENSES		
Contracts, grants, contributions, royalty and license expense, other agreements and research initiatives	\$ 11,228,823	\$ 11,536,101
Royalty expense valuation on investments	(90,060)	105,306
Office of Research and Commercialization and other expenses	122,633	19,137
Salaries and other benefits	1,038,389	912,495
Professional expenses	212,380	57,729
TOTAL OPERATING EXPENSES	<u>\$ 12,512,165</u>	<u>\$ 12,630,768</u>

Operating expenses were \$118,603 less in fiscal year 2020 than in fiscal year 2019. Contribution expense and contracts and grants were \$1,631,058 greater in fiscal year 2020 while other agreements and research initiatives decreased by \$1,373,307 in fiscal year 2020. Royalty and licensing expense decreased by \$565,029. Office of Research and Commercialization (ORC) sponsored activities increased by \$103,496 and salaries and other benefits and professional services increased by \$280,545. Royalty expense valuation also decreased by \$195,366.

ANALYSIS OF CASH FLOWS

	<u>2020</u>	<u>2019</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 4,588,079	\$ 1,104,555
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	995,926	(22,767)
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 5,584,005	\$ 1,081,788
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,634,664	11,552,876
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 18,218,669</u>	<u>\$ 12,634,664</u>

Overall cash and cash equivalents increased by \$5,584,005 in fiscal year 2020. This was primarily due to contracts, grants, other agreements, ORC contributions, and research initiatives cash received being greater than related cash payments by \$4,427,103, royalty cash received

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Management's Discussion and Analysis - Continued

exceeding royalty allocation payouts by \$160,976 and net cash increase for investing activities of \$995,926.

OTHER SIGNIFICANT EVENTS

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

ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE

The University employs individuals whose salaries are allocated to the Research Foundation. During fiscal years ended June 30, 2020 and 2019, the Research Foundation reimbursed the University for certain administrative salaries and related benefits. Other items such as office space, and minor operating expenses such as travel, are also provided for by the University. The University is expected to continue to provide this support. However, should the economy significantly affect state appropriations, this may have an impact on the support provided for the Research Foundation's activities.

Financial Statements

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Statements of Net Position

	<i>June 30,</i>	
	<i>2020</i>	<i>2019</i>
ASSETS		
CURRENT ASSETS		
Cash	\$ 424,132	\$ 379,255
Due from University of Central Florida	17,794,537	12,255,409
Accounts receivable (net of allowance for doubtful accounts)	2,790,191	4,872,106
Prepaid expenses	2,008	35,960
TOTAL CURRENT ASSETS	<u>21,010,868</u>	<u>17,542,730</u>
NONCURRENT ASSETS		
Investments	306,508	969,163
TOTAL NONCURRENT ASSETS	<u>306,508</u>	<u>969,163</u>
TOTAL ASSETS	<u>\$ 21,317,376</u>	<u>\$ 18,511,893</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 270,509	\$ 706,303
Allocations and Facilities and Administrative payable	2,526,727	2,964,668
Unearned restricted revenue	9,862,188	8,006,538
TOTAL CURRENT LIABILITIES	<u>12,659,424</u>	<u>11,677,509</u>
NET POSITION		
Unrestricted	6,836,876	5,689,508
Temporarily restricted	1,821,076	1,144,876
TOTAL NET POSITION	<u>8,657,952</u>	<u>6,834,384</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 21,317,376</u>	<u>\$ 18,511,893</u>

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Statements of Revenue, Expenses and Changes in Net Position

	<i>Year Ended June 30,</i>	
	2020	2019
UNRESTRICTED NET POSITION:		
OPERATING REVENUE		
Royalties and licensing fees	\$ 1,122,779	\$ 1,412,969
Royalty profit (loss) on investments	(235,438)	108,962
Contracts and grants	8,380,212	6,952,148
Other agreements income	283,854	507,436
Research initiatives	772,784	1,637,258
Office of Research and Commercialization contributions and miscellaneous income	1,486,985	1,087,206
Net position released from restrictions	1,279,648	1,076,654
TOTAL OPERATING REVENUE	13,090,824	12,782,633
OPERATING EXPENSES		
Royalties and licensing allocations	530,398	1,095,427
Royalties valuation account	(90,060)	105,306
Contracts and grant expenses	8,380,212	6,952,148
Other agreements expense	283,854	507,436
Contribution expense	1,279,648	1,076,654
Research initiatives	754,711	1,904,436
Office of Research and Commercialization and other expenses	122,633	19,137
Salaries and other benefits	1,038,389	912,495
Professional expenses	212,380	57,729
TOTAL OPERATING EXPENSES	12,512,165	12,630,768
NET OPERATING REVENUE	578,659	151,865
NON-OPERATING REVENUE (EXPENSES)		
Investment revenue	569,558	152,213
Investment gain (loss)	(849)	1,288
TOTAL NON-OPERATING REVENUE	568,709	153,501
INCREASE IN UNRESTRICTED NET POSITION	1,147,368	305,366
UNRESTRICTED NET POSITION, BEGINNING OF YEAR	5,689,508	5,384,142
UNRESTRICTED NET POSITION, END OF YEAR	\$ 6,836,876	\$ 5,689,508

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

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

	<i>Year Ended June 30,</i>	
	<i>2020</i>	<i>2019</i>
TEMPORARILY RESTRICTED NET POSITION		
Restricted contribution revenue	\$ 1,955,848	\$ 1,307,256
Net position released from restrictions	(1,279,648)	(1,076,654)
INCREASE IN TEMPORARILY RESTRICTED NET POSITION	676,200	230,602
TEMPORARILY RESTRICTED NET POSITION, BEGINNING OF YEAR	1,144,876	914,274
TEMPORARILY RESTRICTED NET POSITION, END OF YEAR	1,821,076	1,144,876
TOTAL NET POSITION	\$ 8,657,952	\$ 6,834,384

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Statements of Cash Flows

	<i>Year Ended June 30,</i>	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received (used) for:		
Licensing fees and royalties	\$ 1,222,398	\$ 528,212
Contracts, grants, contributions and research initiatives Office of Research and Commercialization contributions and expenses	15,230,644	11,241,929
Royalties and licensing allocations	1,274,605	1,029,477
Contracts, grants, contributions and research initiatives	(1,061,422)	(371,443)
Other disbursements	(9,981,657)	(10,152,426)
	(2,096,489)	(1,171,194)
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,588,079	1,104,555
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment revenue	569,558	152,213
Sale of investments	426,368	-
Purchase of Investments	-	(174,980)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	995,926	(22,767)
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,584,005	1,081,788
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,634,664	11,552,876
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 18,218,669	\$ 12,634,664
CASH AND CASH EQUIVALENTS PRESENTED IN THE FINANCIAL STATEMENTS AS:		
Cash	\$ 424,132	\$ 379,255
Due from University of Central Florida	17,794,537	12,255,409
TOTAL CASH AND CASH EQUIVALENTS PRESENTED TO THE FINANCIAL STATEMENTS	\$ 18,218,669	\$ 12,634,664

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Statements of Cash Flows - Continued

	<i>Year Ended June 30,</i>	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net operating revenue	\$ 578,659	\$ 151,865
Adjustments to reconcile net operating revenue to net cash provided by operating activities:		
Increase in restricted net position	676,200	230,602
Royalties received as corporate stock	-	(284,713)
Loss (gain) in fair value of operating investments	235,438	(108,962)
Royalties expense valuation account	(90,060)	105,306
Provision for doubtful accounts	136,834	88,559
Decrease (increase) in accounts receivable	1,945,081	(1,543,214)
Decrease in prepaid expenses	33,952	400
Increase (decrease) in accounts payable	(435,794)	458,448
Increase (decrease) in allocations and Facilities and Administrative payable	(347,881)	313,822
Increase in unearned restricted revenue	1,855,650	1,692,442
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 4,588,079	\$ 1,104,555

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The purposes of the Research Foundation include the following:

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

The Research Foundation formed a wholly owned subsidiary, UCF Research Foundation Real Estate LLC, for the purpose of holding land and a building that was donated by Intersil Corp in April 2010, but was subsequently returned to Intersil. There were no assets, liabilities, net position or activity for the LLC as of and for the years ended June 30, 2020 and 2019. As such, no accounts for the LLC are reflected in these financial statements.

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

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

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2020 and 2019

For financial reporting purposes, the Research Foundation is considered a special-purpose government organization engaged only in business-type activities. Accordingly, the Research Foundation's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

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

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

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

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

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

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

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2020 and 2019

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

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

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

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

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

Receivables: Receivables are valued at net realizable value and are unsecured. It is the Research Foundation's policy to provide an allowance for accounts receivable that are not expected to be collected. The allowance as of June 30, 2020 and 2019 was \$427,757 and \$290,923, respectively.

Fair Value of Financial Instruments: The Research Foundation did not hold any derivative instruments for trading purposes at June 30, 2020 and 2019, and does not invest in derivative instruments. The carrying amount of cash receivables and payables approximates fair value.

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

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

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2020 and 2019

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

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

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

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

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

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

Facilities Use and Personnel: Facilities and personnel are provided to the Research Foundation by the Office of Research and Commercialization, a division of the University. During fiscal years ended June 30, 2020 and 2019, the Research Foundation reimbursed the University for certain administrative personnel costs. Annually, the Research Foundation and the University agree to what expenses will be reimbursed.

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2020 and 2019

NOTE B--CASH AND CASH EQUIVALENTS

Custodial Credit Risk: At June 30, 2020 and 2019, funds of approximately \$17,795,000 and \$12,255,000 were invested in the Special Purpose Investment Account and other UCF investment accounts with the funds being held by UCF. These amounts are not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) and are included in the accompanying statements of net position as due from UCF.

The Research Foundation maintains a repurchase sweep account with a local bank. The target balance in the main operating accounting is “swept” overnight by the bank and is collateralized by mortgage-backed securities issued by the Federal National Mortgage Association and/or the Federal Home Loan Mortgage Corporation which have been temporarily sold to the Research Foundation under the terms of the repurchase agreement. The balance in the repurchase account as of June 30, 2020 and 2019 was \$146,204 and \$150,785, respectively. These amounts are not included in the deposit amount uninsured by FDIC.

NOTE C--INVESTMENTS

The Research Foundation has adopted an investment policy that includes objectives, performance measures, and guidance on authorized investments. The Research Foundation’s primary investment objective is to preserve and protect its assets by earning a total return for each category of assets which is appropriate for each fund’s time horizon, distribution requirements, and risk tolerance. Additionally, the Research Foundation’s Board passed by unanimous vote that the decision to sell the Finisar stock will be the responsibility of the President and the Vice President of the Research Foundation. The Finisar stock was sold during the year ended June 30, 2020. All investments are held in the name of the Research Foundation.

Investments consist of the following as of June 30:

	<i>Stated Value Method</i>	<i>2020</i>	<i>2019 Portfolio Percentage</i>	<i>2019</i>
Corporate stock: Finisar Corporation	FMV	\$ -	0%	\$ 420,328
Corporate stock: Uber Technologies	FMV	212,935	70%	317,657
Stock rights: Kiadis Pharma	FMV	30,776	10%	161,492
Investment in Banyan Fund	FMV	52,795	17%	59,686
Investment in Inflexion, LLC	FMV	10,002	3%	10,000
		<u>\$ 306,508</u>	<u>100%</u>	<u>\$ 969,163</u>

Credit Risk and Concentration of Credit Risk: Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. As of June

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2020 and 2019

30, 2020 and 2019, investments were uncollateralized and therefore exposed to credit risk. Further, all investments except the investment in Inflexion, LLC were subject to a concentration of credit risk. The percentage allocation of each investment type in the portfolio is shown in the table above.

NOTE D--RISK MANAGEMENT

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

NOTE E--FAIR VALUE MEASUREMENT

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

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

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

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

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2020 and 2019

The following table presents assets reported at fair value as of June 30, 2020 and 2019, and their respective classification under the GASB valuation hierarchy:

	<i>Carrying Value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
June 30, 2020				
Cash equivalents: Repurchase Agreement	\$ 146,204	\$ 146,204	\$ -	\$ -
Corporate Stock: Uber Technologies, Inc.	212,935	212,935	-	-
Stock rights: Kiadis Pharma	30,776	-	-	30,776
Investment in Banyan Fund	52,795	-	52,795	-
Investment in Inflexion, LLC	10,002	-	10,002	-
	<u>\$ 452,712</u>	<u>\$ 359,139</u>	<u>\$ 62,797</u>	<u>\$ 30,776</u>
June 30, 2019				
Cash equivalents: Repurchase Agreement	\$ 150,785	\$ 150,785	\$ -	\$ -
Corporate Stock: Finisar Corporation	420,328	420,328	-	-
Corporate Stock: Uber Technologies, Inc.	317,657	317,657	-	-
Stock rights: Kiadis Pharma	161,492	-	-	161,492
Investment in Banyan Fund	59,686	-	59,686	-
Investment in Inflexion, LLC	10,000	-	10,000	-
	<u>\$ 1,119,948</u>	<u>\$ 888,770</u>	<u>\$ 69,686</u>	<u>\$ 161,492</u>

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

NOTE F--OPERATING LEASES

The Research Foundation entered into a lease in September 2010. This lease ended in September 2013, when an amendment to the operating lease was entered into for an office building in Kissimmee, Florida for a term of six years. In September 2019, the lease was renewed again for a term of three years with base rent payments to be \$1 per year. The premises shall be used and occupied as general business offices related to the Kissimmee business incubator, and other related incubator activities, and for no other purpose. The rental amounts are chargeable to a funded contract agreement. Total rental expense associated with the lease was approximately \$1 and \$165,000 for fiscal years ended June 30, 2020 and 2019, respectively.

Future minimum rental payment is \$1 for each of the years ending June 30, 2021, 2022, and 2023.

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2020 and 2019

The Research Foundation entered into an operating lease in October 2010 and renewed this lease when it ended in October 2013 and renewed again in October 2016 for an office building in Winter Springs, Florida through September 2019. In October 2019, the lease was amended and term extended through September 2020. The premises are limited to use as general business offices related to the Winter Springs business incubator, and other related incubator activities, and for no other purpose. The rental amounts are chargeable to a funded contract agreement. Total rental expense associated with the lease was approximately \$236,000 and \$254,000 for fiscal years ended June 30, 2020 and 2019, respectively.

Future minimum rental payments are \$57,720 for the year ending June 30, 2021.

NOTE G--TEMPORARILY RESTRICTED NET POSITION

The temporarily restricted net position of \$1,821,076 and \$1,144,876 was available for research initiatives at June 30, 2020 and 2019, respectively. The temporarily restricted net position released from donor and principal investigator restrictions by incurring expenses satisfying the restricted purposes of research activities was \$1,279,648 and \$1,076,654 for the years ended June 30, 2020 and 2019, respectively.

NOTE H--FISCAL AGENT ARRANGEMENTS

The Research Foundation acts as fiscal agent for three entities: Florida High Tech Corridor Council (FHTCC), International Consortium for Advanced Manufacturing Research (ICAMR, Inc. dba BRIDG) and the National Entrepreneur Center (NEC). As fiscal agent, the Research Foundation earns a management fee from the three entities by providing administrative oversight of financial matters including collection, administration and disbursement of funds. Management fees were approximately \$360,000 and \$78,000 for the years ended June 30, 2020 and 2019, respectively.

NOTE I--UNIVERSITY OF CENTRAL FLORIDA APPLIED RESEARCH INSTITUTE

The University of Central Florida Applied Research Institute (UCFARI) was created during the year ended June 30, 2016 as a DBA to compete for contracts and grants related to applied research efforts (TRL 4-7). There were seven and thirteen applied research projects included in the Research Foundation's financial statements for the years ended June 30, 2020 and 2019, respectively. Revenue and expenses related to these projects was \$1,605,934 and \$1,978,028 for the years ended June 30, 2020 and 2019, respectively.

NOTE J--SUBSEQUENT EVENTS

Subsequent to and during the year ended June 30, 2020, due to a world-wide pandemic, there has been and continues to be substantial volatility in financial markets, which resulted in broad

THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC.

Notes to Financial Statements - Continued

Years Ended June 30, 2020 and 2019

declines in equity and other markets. The pandemic has also had significant impacts to the economy. Management continues to monitor this volatility, but the ultimate outcome of the pandemic on the Research Foundation is unknown.

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued. During this period, management did not note any material recognizable subsequent events that required recognition or disclosure in the June 30, 2020 financial statements except as discussed above.

Other Information



REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with 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 University of Central Florida Research Foundation, Inc. (the Research Foundation), which comprise the statement of net position as of June 30, 2020, and the related statements of revenue, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 27, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Research Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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.

PYA, P.C.

Tampa, Florida
August 27, 2020