

**UNIVERSITY OF SOUTH FLORIDA
RESEARCH FOUNDATION, INC.**

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.

JUNE 30, 2008 and 2007

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
University of South Florida Research Foundation, Inc.

We have audited the accompanying financial statements of the University of South Florida Research Foundation, Inc. (the Research Foundation) as of and for the years ended June 30, 2008 and 2007, which collectively comprise the Research Foundation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Research Foundation's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Research Foundation as of June 30, 2008 and 2007, and the respective changes in financial position, and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2008, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis on pages 31 through 38 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Richard L. Brown & Company, PLLC

Tampa, Florida
September 15, 2008

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
STATEMENT OF NET ASSETS
FOR THE PERIODS ENDED JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 4,195,583	\$ 972,095
Investments	14,312,705	23,505,828
Accounts Receivable	4,237,108	8,490,027
Other Current Assets	209,477	243,075
TOTAL CURRENT ASSETS	22,954,873	33,211,025
RESTRICTED CASH AND CASH EQUIVALENTS	303,919	383,234
NON-CURRENT ASSETS:		
Capital Assets:		
Land	17,123,903	17,123,903
Buildings	47,015,431	44,824,224
Less - Accumulated Depreciation	(4,455,344)	(3,240,044)
TOTAL CAPITAL ASSETS	59,683,990	58,708,083
OTHER NON-CURRENT ASSETS		
Long Term Portion of Unamortized Loan Costs	475,156	498,945
TOTAL NON-CURRENT ASSETS	60,463,065	59,590,262
TOTAL ASSETS	\$ 83,417,938	\$ 92,801,287

See notes to financial statements.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
STATEMENT OF NET ASSETS
FOR THE PERIODS ENDED JUNE 30, 2008 AND 2007

	2008	2007
LIABILITIES		
CURRENT LIABILITIES:		
Accounts Payable and Accrued Liabilities	\$ 4,100,998	\$ 3,739,808
Due to University of South Florida	12,009,372	21,044,387
Current portion of Revenue Bonds Payable	1,170,000	1,140,000
Deferred Revenue	61,680	-
TOTAL CURRENT LIABILITIES:	<u>17,342,050</u>	<u>25,924,195</u>
NON-CURRENT LIABILITIES:		
Revenue Bonds Payable	41,730,000	42,900,000
Arbitrage Rebate Liability	34,388	-
Interest Rate Swap Liability	2,323,356	63,000
TOTAL NON-CURRENT LIABILITIES:	<u>44,087,744</u>	<u>42,963,000</u>
TOTAL LIABILITIES	<u>61,429,794</u>	<u>68,887,195</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	16,566,180	15,426,180
Unrestricted	5,421,964	8,487,912
TOTAL NET ASSETS	<u>\$ 21,988,144</u>	<u>\$ 23,914,092</u>

See notes to financial statements.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
OPERATING REVENUES		
Licenses and Option Fees	\$ 887,625	\$ 409,375
Royalties	945,272	1,090,336
Contracts and Grants	498,947	482,262
Administrative Fees	920,415	838,338
Incubator Revenues	1,426,752	1,349,860
Property Rental Revenues	5,442,524	5,151,465
TOTAL OPERATING REVENUES	<u>10,121,535</u>	<u>9,321,636</u>
OPERATING EXPENSES		
Inventor Royalties	654,481	498,387
Inventing Department Royalties and Rebates	202,676	86,985
Other Licenses, Grants and Patents Costs	361,241	574,584
Contracts and Grants	498,947	482,262
Incubator Expenses	1,384,401	1,527,481
Property Rental Expenses	5,841,415	5,500,058
Management and General	1,070,009	896,416
TOTAL OPERATING EXPENSES	<u>10,013,170</u>	<u>9,566,173</u>
TOTAL OPERATING INCOME	<u>108,365</u>	<u>(244,537)</u>
NON-OPERATING REVENUES (EXPENSES)		
Investment Income	(108,983)	1,441,482
Interest income	369,413	493,441
Change in Fair Value of Interest Rate Swaps	(2,260,355)	400,000
Arbitrage Rebate Expense	(34,388)	-
Proceeds from Settlement of Lawsuit	-	600,000
Other Non-Operating Revenue	-	1,719,388
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(2,034,313)</u>	<u>4,654,311</u>
INCOME AND INCREASE IN NET ASSETS	(1,925,948)	4,409,774
NET ASSETS BEGINNING OF YEAR	23,914,092	19,504,318
NET ASSETS END OF YEAR	<u>\$ 21,988,144</u>	<u>\$ 23,914,092</u>

See notes to financial statements.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
STATEMENT OF CASH FLOWS - DIRECT METHOD
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Licensed Products		
Licenses and Option Fees	\$ 887,625	\$ 847,455
Department Allocations Paid	(361,241)	(794,604)
Royalties	890,073	1,061,799
Royalties Paid	(98,516)	(782,021)
Contracts and Grants	4,394,145	3,879,919
C&G Disbursements	(4,211,243)	(4,178,754)
Incubator		
Incubator Revenues	2,015,966	920,652
Incubator Disbursements	(1,402,188)	(1,747,926)
Real Estate		
Real Estate Receipts	8,355,798	6,850,967
Real Estate Disbursements	(4,540,863)	(4,696,206)
Pharmaceuticals		
Pharmaceutical Receipts	6,790,357	3,012,746
Pharmaceutical Disbursements	(7,570,728)	(3,563,320)
Other		
Management & General	(1,108,327)	(808,219)
Administrative fees	776,860	843,130
Graphic Studios	(145,550)	85,108
Comparative BioMedicine	(3,748)	33,157
NET CASH PROVIDED FROM OPERATIONS	<u>4,668,420</u>	<u>963,883</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Non-recurring contribution from State of Florida	-	1,719,388
Non-Recurring Proceeds From Settlement of Lawsuit	-	600,000
Receipt (Refund) of Cash to University	(8,000,000)	8,000,000
NET CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	<u>(8,000,000)</u>	<u>10,319,388</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash and Cash Equivalents Restricted For Bond Payment	79,315	(127,545)
Purchase of capital assets	(5,344,170)	(3,523,868)
Reciepts from USF for Capital Assets	3,370,773	2,108,280
Payment on Revenue Bonds	(1,140,000)	(1,005,000)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(3,034,082)</u>	<u>(2,548,133)</u>

See notes to financial statements.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2008

(Continued)

	2008	2007
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	505,010	636,236
Investment Income	(108,983)	1,441,482
Purchase of Investments	(18,572,909)	(33,016,557)
Proceeds from sales of investments	<u>27,766,032</u>	<u>22,117,422</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES	9,589,150	(8,821,417)
NET CHANGE IN CASH	<u>3,223,488</u>	<u>(86,279)</u>
CASH - BEGINNING OF THE YEAR	972,095	1,058,374
CASH - END OF THE YEAR	<u><u>\$ 4,195,583</u></u>	<u><u>\$ 972,095</u></u>

Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities

Operating income	108,365	\$ (244,537)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation & amortization expense	1,239,089	876,903
Changes in assets and liabilities:		
Accounts receivable	4,117,323	(1,805,894)
Other Current Assets	33,598	(75,069)
Accounts Payable and Accrued Liabilities	361,190	701,442
Due to University of South Florida	(1,252,825)	1,511,038
Deferred Revenue	<u>61,680</u>	<u>-</u>
	<u><u>\$ 4,668,420</u></u>	<u><u>\$ 963,883</u></u>

Note 1: During the fiscal year ended June 30, 2008, the Research Foundation recognized a negative non-cash adjustment to income of \$2.26 million as a result of a change in the value in interest rate swaps entered into with Bank of America.

See notes to financial statements.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 and 2007

Note A — Summary of Significant Accounting Policies

Nature of Entity – The University of South Florida Research Foundation, Inc. (the “Research Foundation”) was formed as a not-for-profit organization in June 1989 in the state of Florida with the objective of assisting the University of South Florida (the “University”), its faculty, staff, and students in the commercialization of intellectual properties which include inventions, discoveries, ideas, processes and work products. In addition, the Research Foundation provides a mechanism for the funding of licensed research and development activities at the University. Net proceeds from Research Foundation activities are used to further research and other endeavors at the University. The Board of Directors of the Research Foundation is currently comprised of twelve members including six external members and one non-senior management faculty members and thus has an independent majority. The Research Foundation has received tax exempt status under Section 501(c) (3) of the Internal Revenue Code.

The commercialization of intellectual works is accomplished by obtaining 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. The Research Foundation works in cooperation with the University’s Division of Patents and Licensing (DPL) in obtaining patents and copyrights. DPL reviews all intellectual property developed at the University to determine if the University wishes to retain its rights and interests. On intellectual work that shows the potential for University benefit, DPL obtains patents and copyrights, assuming all costs, including attorneys’ fees, patent application fees, etc. All rights are retained by the University. After the patent acquisition costs of DPL are recovered by the Research Foundation, proceeds from the commercialization of the intellectual property are shared, on a percentage basis, among the inventors, a continuing research fund in the department where the inventor is employed, and the Research Foundation. The patent costs recovered by the Research Foundation are repaid to the University. Both DPL and the Research Foundation utilize funds to encourage additional research and development activities at the University.

Based on the aforementioned transactions and relationships, the Research Foundation and University are considered financially interrelated according to generally accepted accounting principles applicable to public colleges and universities as prescribed by the Governmental Accounting Standard Board (GASB) statements. However, these financial statements are entirely those of the Research Foundation alone and, accordingly, are not intended to present the financial position of the University of South Florida or its results of operations.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 and 2007

Note A — Summary of Significant Accounting Policies (Continued)

The Research Foundation's accounting policies conform with generally accepted accounting principles applicable to public colleges and universities as prescribed by the Governmental Accounting Standards Board (GASB) statements. The National Association of College and University Business Officers (NACUBO) also provides the Research Foundation with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB).

In November, 1999, GASB issued Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities." This Statement includes public colleges and universities within the financial reporting guidelines of GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." GASB Statement No. 35 allows public colleges and universities the option of reporting as a special-purpose government engaged in only business-type activities, engaged only in governmental activities or engaged in both governmental and business-type activities. The Research Foundation elected to report as an entity engaged in only business-type activities. This election requires the adoption of accrual basis of accounting and entity-wide reporting including the following components:

- Management's Discussion and Analysis (MD&A)
- Basic Financial Statements:
 - 1) Statement of Net Assets
 - 2) Statement of Revenues, Expenses and Changes in Net Assets
 - 3) Statement of Cash Flows
- Notes to Financial Statements
- Required supplementary information (RSI) other than MD&A

Investments – The Research Foundation reports equity and debt securities at fair value. The Research Foundation's investments consist of money market funds, discount notes, stocks and the pooled investment accounts of the University of South Florida Foundation, Inc.

Under GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3, common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk is addressed. The Statement defines custodial risk for deposits as "the risk that, in the event of a failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party." As an element of the interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement are also required to be disclosed.

UNIVERSITY OF SOUTH FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 and 2007

Note A — Summary of Significant Accounting Policies (Continued)

Accounts Receivable – Accounts receivable are recorded at net realizable value. It is the Research Foundation's policy to provide an allowance for accounts receivable that are not expected to be collected. However, no allowance is deemed necessary at June 30, 2008 and 2007.

Land and Buildings – Land and buildings are recorded at cost. The Research Foundation capitalized any costs greater than \$1,000. The buildings are depreciated on a straight-line basis with a useful life of 39 years.

Income Taxes – No provision for income tax expense or liability has been made since the Research Foundation is a tax-exempt entity. Required, informational returns (Form 990) are filed on an annual basis with the Internal Revenue Service.

Administrative Services – The Research Foundation utilizes University equipment and is assisted by University employees. On an annual basis, the Research Foundation negotiates the value of the above services with the University. For the years ended June 30, 2008 and 2007, the Research Foundation reimbursed the University \$557,176 and \$404,534.

Revenue Recognition – Revenues are recognized in accordance with timing stipulated in license agreements. The Research Foundation must be able to and be reasonably expected to enforce payment of contract fees before revenues are recognized. Revenue associated with the license of intellectual properties is recognized as revenue at the time underlying property is delivered.

Administrative fees from research and development and contracts and grants are deemed to be earned when the Research Foundation has incurred expenditures in compliance with the specific agreement terms. Funds received for which restricted expenditures have not yet been made are recorded on the statement of net assets as due to the University of South Florida or as deferred revenue if the award is made to the Research Foundation rather than to the University of South Florida.

Rental income is recognized when billed and expenses are recognized when incurred. The effects of scheduled future minimum rent increases are recognized at the time they become effective.