

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

FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
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JUNE 30, 2019 AND 2018

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INDEPENDENT AUDITORS' REPORT

Board of Directors
University of Florida Research Foundation, Inc.
Gainesville, Florida:

Report on the Financial Statements

We have audited the accompanying financial statements of the University of Florida Research Foundation, Inc. (the Research Foundation), a direct-support organization and component unit of the University of Florida, as of and for the years ended June 30, 2019 and 2018, 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

The Research Foundation's 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.

Auditors' 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe 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 Research Foundation as of June 30, 2019 and 2018, and the changes in financial position and cash flows thereof 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 the management's discussion and analysis on pages 3 – 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2019 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 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.

James Moore & Co., P.L.

Gainesville, Florida
September 16, 2019

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018

The Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of the University of Florida Research Foundation, Inc. (the Research Foundation) for the fiscal years ended June 30, 2019 and 2018, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities, as amended by GASB Statement Nos. 37, 38, 63, and 65. The MD&A, the financial statements, and the notes thereto are the responsibility of the Research Foundation management.

FINANCIAL HIGHLIGHTS

The Research Foundation's assets totaled \$175 million at June 30, 2019. This balance reflects an increase of \$50.0 million or 39.9% in assets from June 30, 2018. Due from University of Florida (the University) increased by \$49.6 million as the Research Foundation had large royalty and licensing revenue, and because the University holds excess operating cash on behalf of the Research Foundation. Total liabilities were \$68.7 million at June 30, 2019, an increase of \$45.5 million or 195.4% in liabilities from June 30, 2018. Inventors' and University allocation payables increased by \$43.8 million due to increased royalty and licensing revenue and future distributable allocations. Accounts payable remained at the previous year's level, and Funds held on behalf of others increased by \$1.2 million. As a result, the Research Foundation's net position increased by \$4.5 million or 4.4%, resulting in a year-end balance of \$106.5 million. The Research Foundation's assets totaled \$125.3 million at June 30, 2018, which reflected an increase of \$6.2 million or 5.2% from June 30, 2017. Liabilities totaled \$23.3 million and \$21.2 million at June 30, 2018 and 2017, respectively.

The Research Foundation's operating revenue totaled \$83.7 million in the fiscal year ended June 30, 2019, \$49.9 million more than the fiscal year ended June 30, 2018, due to steady royalty returns and several non-recurring events. Operating revenues were largely comprised of royalty and licensing revenue, and reimbursement of patent and licensing costs. Out of those, royalty and licensing income increased by \$49.5 million compared with the fiscal year ended June 30, 2018. The major contributing factors were as follows; the Research Foundation received a one-time payment of \$38.7 million for its equity in Brammer Bio, LLC as a result of a merger agreement. The Research Foundation also received \$6.8 million from one major license agreement, and a few large sublicense and milestone payments. Reimbursements of patent and licensing costs increased slightly to \$3.8 million in fiscal year 2019. The Research Foundation's operating revenues totaled \$33.8 million and \$33.2 million in fiscal years 2018 and 2017, respectively.

The costs of royalties and licenses totaled \$71.5 million for the fiscal year ended June 30, 2019, reflecting an increase of \$45.9 million or 179% from the fiscal year ended June 30, 2018. The major components of these costs were royalty payments to the individual inventors and their respective programs, departments, and colleges, as well as payments for patent and licensing costs. The Research Foundation's costs of royalties and licenses were \$25.6 million for the fiscal year ended June 30, 2018. This was an increase of \$0.9 million or 3.6% from the fiscal year ended June 30, 2017.

Operating expenses totaled \$10.0 million for the fiscal year ended June 30, 2019, representing an increase of \$3.7 million or 58.2% from the fiscal year ended June 30, 2018. This was primarily due to increases in research support to the University. The Research Foundation's operating expenses totaled \$6.3 million for the fiscal year ended June 30, 2018, representing a decrease of \$2.6 million or 29.4% from the fiscal year ended June 30, 2017.

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018
(Continued)

Net non-operating revenue totaled \$2.3 million for the fiscal year ended June 30, 2019, as well as the fiscal year ended June 30, 2018. The main component of Non-operating revenues was unit repayments for the Cancer/Genetics Building.

The ending balance of the Research Foundation's cash and cash equivalents was \$1.8 million at June 30, 2019. The net cash used in operating activities was \$2.4 million for fiscal year 2019, which reflects an increase of \$0.1 million compared with fiscal year 2018. The only component in the net cash provided by capital financing activities was the unit repayments for the Cancer/Genetics Building of \$2.3 million. There was no net cash provided by investing activities for fiscal year 2019. The ending balance of the Research Foundation's cash and cash equivalents was \$1.9 million at June 30, 2018 and 2017.

OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 63, the Research Foundation's financial report includes three basic financial statements: The Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; and the Statements of Cash Flows.

The Statements of Net Position consist of current and non-current assets and liabilities. The Statements of Revenues, Expenses, and Changes in Net Position characterize revenues and expenses as either operating or non-operating. A portion of the Research Foundation's anticipated recurring resources is considered non-operating as defined by GASB Statement No. 35. The principal component of recurring non-operating revenues for the fiscal year ended June 30, 2019 was unit repayments for the Cancer/Genetics Building of \$2.3 million. Finally, the Statements of Cash Flows consist of cash flows from operating, capital and related financing, and investing activities.

FINANCIAL HIGHLIGHTS OF THE RESEARCH FOUNDATION

The Statements of Net Position report all financial and capital resources of the Research Foundation at 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 exceeded liabilities as of June 30, 2019, 2018, and 2017 by approximately \$106.5, \$102.1, and \$97.9 million, respectively. The following schedules are the Research Foundation's condensed Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows:

The Research Foundation's Net Position

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Current assets	\$ 175,277,948	\$ 125,326,462	\$ 119,090,309
Total assets	<u>175,277,948</u>	<u>125,326,462</u>	<u>119,090,309</u>
Current liabilities	68,743,887	23,272,433	21,170,902
Total liabilities	<u>68,743,887</u>	<u>23,272,433</u>	<u>21,170,902</u>
Net position			
Unrestricted	<u>106,534,061</u>	<u>102,054,029</u>	<u>97,919,407</u>
Total Net Position	<u>\$ 106,534,061</u>	<u>\$ 102,054,029</u>	<u>\$ 97,919,407</u>

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018
(Continued)

The Research Foundation's Activities and Changes in Net Position

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Revenues			
Operating revenues	\$ 83,732,554	\$ 33,804,981	\$ 33,161,414
Costs of royalties and licenses	(71,543,631)	(25,645,283)	(24,750,723)
Net operating revenue	<u>12,188,923</u>	<u>8,159,698</u>	<u>8,410,691</u>
Total operating expenses	<u>(10,022,599)</u>	<u>(6,334,030)</u>	<u>(8,966,049)</u>
Operating income/(loss)	2,166,324	1,825,668	(555,358)
Nonoperating revenues, net	2,313,708	2,308,954	2,336,278
Change in Net Position	<u>\$ 4,480,032</u>	<u>\$ 4,134,622</u>	<u>\$ 1,780,920</u>

The Research Foundation's Cash Flows

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Cash provided by (used in):			
Operating activities	\$ (2,393,234)	\$ (2,279,331)	\$ (2,000,604)
Capital financing activities	2,300,000	2,300,000	2,300,000
Investing activities	<u>-</u>	<u>-</u>	<u>8,389</u>
Net increase (decrease) in cash and cash equivalents	(93,234)	20,669	307,785
Cash and cash equivalents, beginning of year	1,903,600	1,882,931	1,575,146
Cash and cash equivalents, end of year	<u>\$ 1,810,366</u>	<u>\$ 1,903,600</u>	<u>\$ 1,882,931</u>

FINANCIAL POSITION AND RESULTS OF OPERATIONS

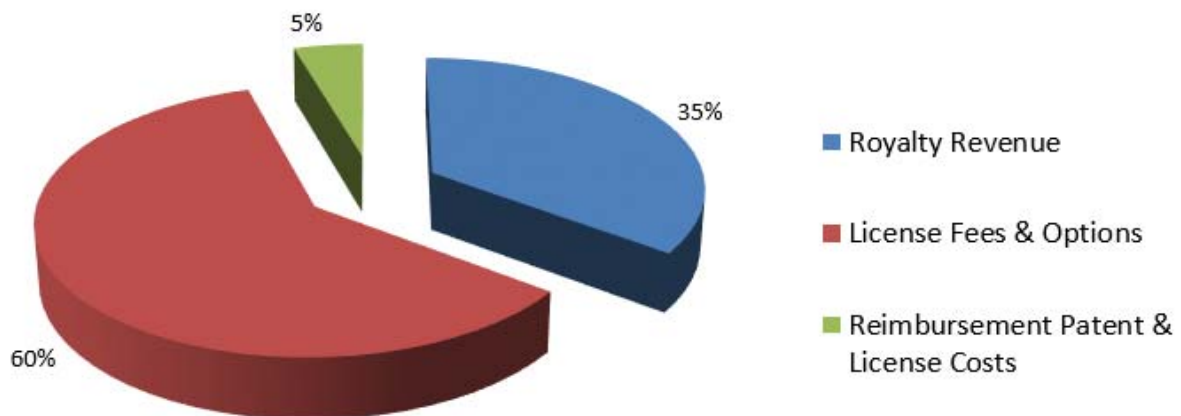
The Research Foundation is considered a component unit of the University for accounting purposes. In addition, the Research Foundation is self-supporting, and does not receive any State support.

The Research Foundation strives to operate on a financial breakeven basis generating revenue sufficient to cover operating costs. All capital assets purchased by the Research Foundation are immediately donated to the University, therefore the Research Foundation has no capital assets.

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018
(Continued)

A graphical representation of the Research Foundation's sources of operating revenues for the year ended June 30, 2019 is as follows:

**The Research Foundation's Sources of Operating Revenue
for the Year Ended June 30, 2019**



ECONOMIC OUTLOOK

The Research Foundation's economic outlook is closely related to and largely dependent on the ongoing royalty and licensing income received. These income sources may be somewhat volatile in the short term; however, they are expected to remain fairly stable with moderate growth over the long-term. For fiscal year 2020, royalty and licensing income from recurring items is budgeted at \$27.7 million.

CONTACTING MANAGEMENT

This financial narrative is designed to provide you with a general overview of the Research Foundation's finances and to show accountability for the various revenues we receive. If you have questions about this report or need additional financial information, please contact the Business Office:

University of Florida Research Foundation, Inc.
288 Grinter Hall
PO Box 115500
Gainesville, FL 32611-5500
(352) 392-5221

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018

	2019	2018
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	\$ 1,810,366	\$ 1,903,600
License fees and royalties receivable, net	7,757,278	7,102,809
Patent and licensing costs receivable, net	1,163,774	1,387,230
Due from University of Florida	164,330,000	114,730,000
Investments, unrestricted, at fair value	216,530	202,823
Total current assets	175,277,948	125,326,462
Total assets	175,277,948	125,326,462
<u>LIABILITIES</u>		
Current liabilities		
Accounts payable	1,179,236	1,114,220
Patent and licensing costs payable	1,994,543	1,543,594
Inventors' allocation payable	3,005,228	1,520,751
University allocation payable:		
License fees and royalties payable	57,884,077	15,570,670
Funds held on behalf of others	4,680,803	3,523,198
Total current liabilities	68,743,887	23,272,433
Total liabilities	68,743,887	23,272,433
<u>NET POSITION</u>		
Net position		
Unrestricted	\$ 106,534,061	\$ 102,054,029

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

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Operating revenues		
Royalties	\$ 29,264,596	\$ 27,134,627
Licensing fees and options	50,272,402	2,897,309
Reimbursement of patent and licensing costs	3,834,346	3,702,665
Unexpended program support returned to the Research Foundation	15,589	42,300
Miscellaneous operating revenues	345,621	28,080
Total operating revenues	<u>83,732,554</u>	<u>33,804,981</u>
Cost of royalties and licenses		
Inventors' allocations	6,980,516	3,420,559
Inventors' department allocations	54,887,406	14,333,311
Inventors' college allocations	1,359,890	426,700
Inventors' program allocations	1,461,036	495,706
Patent and licensing	6,854,783	6,969,007
Total cost of royalties and licenses	<u>71,543,631</u>	<u>25,645,283</u>
Net operating revenues	<u>12,188,923</u>	<u>8,159,698</u>
Operating expenses		
Research and development awards	1,473,162	1,021,219
Gatorade research allocations	3,827,225	748,571
Office of technology license expenses:		
Salary reimbursement	2,596,190	2,383,316
Other administrative expenses	412,823	526,394
Administrative expenses:		
Salary reimbursement	709,226	669,230
Publications	277,999	331,265
Other administrative expenses	725,974	654,035
Total operating expenses	<u>10,022,599</u>	<u>6,334,030</u>
Operating income	<u>2,166,324</u>	<u>1,825,668</u>
Nonoperating revenues		
Investment income	2,495	1,749
Net increase in the fair value of investments	11,213	7,205
Unit repayments for the Cancer/Genetics Building	2,300,000	2,300,000
Total nonoperating revenues	<u>2,313,708</u>	<u>2,308,954</u>
Change in net position	4,480,032	4,134,622
Net position, beginning of year	102,054,029	97,919,407
Net position, end of year	<u>\$ 106,534,061</u>	<u>\$ 102,054,029</u>

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

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Cash flows from operating activities		
Receipts and disbursements from licensed products:		
Royalties	\$ 28,412,430	\$ 26,552,019
Licensing fees and options	50,470,100	2,088,659
Reimbursement of patent and licensing costs	4,057,802	3,400,430
Inventors' allocation payments	(5,496,039)	(2,749,270)
University allocation payments	(15,394,925)	(15,009,342)
Patent and licensing costs	(6,403,834)	(6,811,421)
Total receipts and disbursements from licensed products, net	55,645,534	7,471,075
 Funds held on behalf of others:		
Receipts	3,336,712	2,778,994
Disbursements	(2,179,107)	(1,848,436)
Total funds held on behalf of others, net	1,157,605	930,558
 Unexpended program support returned to the Research Foundation	15,589	42,300
Gatorade allocations	(3,827,225)	(748,571)
Research and development awards	(1,481,615)	(1,029,672)
Due from the University of Florida, net	(49,600,000)	(4,530,000)
Payments to vendors and salary reimbursements	(4,648,743)	(4,443,101)
Miscellaneous	345,621	28,080
Net cash used in operating activities	(2,393,234)	(2,279,331)
 Cash flows from capital and related financing activities		
Unit repayments for the Cancer/Genetics Building	2,300,000	2,300,000
Net cash provided by capital and related financing activities	2,300,000	2,300,000
 Net increase (decrease) in cash and cash equivalents	(93,234)	20,669
 Cash and cash equivalents, beginning of year	1,903,600	1,882,931
 Cash and cash equivalents, end of year	\$ 1,810,366	\$ 1,903,600

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

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018
(Continued)

	2019	2018
Reconciliation of operating income to net cash used in operating activities:		
Operating income	\$ 2,166,324	\$ 1,825,668
Adjustments to reconcile operating income to net cash used in operating activities:		
(Increase) in license fees and royalties receivable	(654,468)	(1,391,258)
(Increase) decrease in patent and licensing costs receivable	223,456	(302,234)
(Increase) in receivable from the University of Florida, net	(49,600,000)	(4,530,000)
Increase in accounts payable	65,016	112,685
Increase in patent and licensing costs payable	450,949	157,586
Increase in inventors' allocation payable	1,484,477	671,289
Increase in license fees and royalties payable	42,313,407	246,375
Increase in funds held on behalf of others	1,157,605	930,558
Net cash used in operating activities	\$ (2,393,234)	\$ (2,279,331)
Supplemental noncash information		
Net increase in the fair value of investments, unrestricted	\$ 11,213	\$ 7,205
Net decrease in the fair value of investments, restricted	\$ -	\$ (16,963)

The net increase in the fair value of unrestricted investments above is recognized as nonoperating revenues in the Statements of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2019 and 2018. The net decrease in the fair value of restricted investments above was recognized as a decrease in funds held on behalf of others in the Statements of Net Position as of June 30, 2018.

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

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

(1) **Summary of Significant Accounting Policies:**

The following is a summary of the more significant accounting policies of the Research Foundation, which affect elements of the accompanying basic financial statements:

(a) **Reporting entity**—The Research Foundation is a direct support organization and component unit of the University as provided for under Section 1004.28, Florida Statutes. The Research Foundation was formed as a Florida not-for-profit organization in August of 1986. The Research Foundation's purpose is to assist the University in the funding of research and development and in the commercialization of intellectual properties, which include inventions, discoveries, processes, and work products. When inventions and other intellectual property of the University are commercialized through the Research Foundation, the proceeds are distributed pursuant to the University's Intellectual Property Policy.

(b) **Measurement focus, basis of accounting, and financial statement presentation**—The financial statements of the Research Foundation have been 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.

For financial reporting purposes, the Research Foundation is considered a special purpose government entity engaged only in business-type activities. Accordingly, the Research Foundation prepares its financial statements using the economic resources measurement focus and the accrual basis of accounting in accordance with GAAP for proprietary funds, which is similar to those for private business enterprises. Therefore, revenues are recorded when earned and expenses are recorded when incurred.

The entire Net Position of the Research Foundation is considered to be unrestricted, in accordance with the purpose and bylaws of the Research Foundation [see Notes (1)(a) and (6)].

(c) **Cash and cash equivalents**—The Research Foundation's cash and cash equivalents are demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. For purposes of the statements of cash flows, the Research Foundation considers all deposit accounts cash and cash equivalents.

(d) **Receivables**—License fees and royalties receivable, and patent and licensing costs receivable are recorded at net realizable value and are unsecured. It is the Research Foundation's policy to provide an allowance for these receivables that are not expected to be collected. Receivables are periodically evaluated for collectability based on past payment history with companies and their current financial condition.

The balance in allowance for doubtful accounts for license fees and royalties receivable is \$40,000 and \$80,000 at June 30, 2019 and 2018, respectively. The balance in allowance for doubtful accounts for patent and licensing costs receivable is \$920,000 at June 30, 2019 and 2018.

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

(1) **Summary of Significant Accounting Policies:** (Continued)

(e) **Investments and fair value measurements**—In general, investments are reported at fair value when available. The Research Foundation categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at net asset value (NAV) per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

(f) **Due from University of Florida**—The Research Foundation transfers excess operating cash to the University and withdraws funds as needed for operations [see Note (2)].

(g) **Funds held on behalf of others**—Funds held on behalf of others represents the liability for license income or lease payments collected on behalf of the Research Foundation's affiliated entities. The Research Foundation also held shares on behalf of the Law School. These amounts are held in cash equivalents, due from the University of Florida, or investments [see Notes (5) and (7)].

(h) **Income taxes**—The Research Foundation is generally exempt from Federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes has been made in the accompanying financial statements. The Research Foundation files informational tax returns in the U.S. federal jurisdiction. The Research Foundation's income tax returns for the past three years are subject to examination by tax authorities and may change upon examination, but changes would not be expected to be material.

(i) **Classification of revenues**—The Research Foundation classifies its revenues as operating or nonoperating according to the following criteria:

- *Operating Revenues*—Include activities that have the characteristics of exchange transactions, such as royalty and licensing fees.
- *Nonoperating Revenues*—Include activities that have characteristics of nonexchange transactions, such as investment income.

(j) **Unexpended program support returned to the Research Foundation**—Program support funds that are no longer regularly utilized, or for which the deadline for expenses has passed, are returned to the Research Foundation and are recognized as operating revenue in the year returned.

(k) **Accounting estimates**—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

(l) **Management's review**—The Research Foundation's management has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through September 16, 2019, the date the financial statements were available to be issued.

(m) **Pronouncements issued**—GASB issued Statement No. 84, *Fiduciary Activities*, in January 2017. GASB No. 84 seeks to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The provisions in GASB No. 84 are effective for fiscal years beginning after December 15, 2018.

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

(1) **Summary of Significant Accounting Policies:** (Continued)

GASB also issued Statement No. 87, *Leases*, in June 2017. GASB No. 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities, for leases that were previously classified as operating leases, and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It established a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in GASB No. 87 are effective for periods beginning after December 15, 2019.

Management has not currently determined what, if any, impact implementation of these statements will have on the Research Foundation's financial statements.

(2) **Due from University of Florida:**

Effective July 1, 2014, the Research Foundation entered into an agreement with the University where substantially all investments and excess operating cash is held by the University on behalf of the Research Foundation. All earnings, losses, and associated fees related to these funds will be retained or paid by the University. The Research Foundation has same day liquidity in regards to these funds up to \$10,000,000. A withdrawal of more than \$10,000,000 requires two days written notice. The balance of the funds held by the University was \$164,330,000 and \$114,730,000 at June 30, 2019 and 2018, respectively. These funds are shown as Due from University of Florida on the Statements of Net Position.

(3) **Cash, Cash Equivalents, and Investments:**

As of June 30, 2019 and 2018, cash and cash equivalents were held by depositories with bank balances amounting to \$1,817,833 and \$1,889,417, respectively. The Research Foundation's cash deposit account is fully insured by the federal public depository insurance corporation (FDIC) up to \$250,000 or by the bank's participation as a qualified public depository pursuant to the Florida Statutes, Chapter 280, Security for Public Deposits Act (the Act), and therefore, not subject to custodial credit risk.

Investments

The Research Foundation's investment policy describes the types of investments that it is authorized to purchase. As of June 30, 2019 and 2018, investments consist of the following:

<u>Investment Type</u>	<u>2019</u>	<u>2018</u>
Equity Securities [see Note (7)]	\$ 106,512	\$ 97,778
State of Florida Special Purpose Investment Account (SPIA)	110,018	105,045
Total Investments	\$ 216,530	\$ 202,823

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

(3) **Cash, Cash Equivalents, and Investments:** (Continued)

As shown in the accompanying Statements of Net Position:

	2019	2018
Unrestricted investments, at fair value	\$ 216,530	\$ 202,823
Total Investments	\$ 216,530	\$ 202,823

SPIA—is an external investment pool and participation in the pool represents ownership of a share of the pool, not the underlying securities. The Research Foundation relies on policies developed and administered by the Florida State Treasury for managing interest rate risk or credit risk for this investment pool.

GASB Statement No. 40, Deposit and Investment Risk Disclosures—requires disclosure concerning certain investment and deposit risk attributes for interest rate risk, credit risk, concentration of credit risk, custodial credit risk, and foreign currency risk.

Interest Rate Risk

The effective duration of SPIA is as follows:

Investment Type	As of June 30, 2019	
	Fair Value	Duration
SPIA	\$ 110,018	2.71 Years

Investment Type	As of June 30, 2018	
	Fair Value	Duration
SPIA	\$ 105,045	3 Years

No other interest rate risk information is provided on applicable investments.

Credit Risk—The following is information regarding the credit risk by applicable type of investments and/or portfolio:

Investment Type	As of June 30, 2019 Credit Ratings	As of June 30, 2018 Credit Ratings
SPIA	AA-f	A+f

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

(3) **Cash, Cash Equivalents, and Investments:** (Continued)

Concentration of Credit Risk

The Research Foundation's investment policy does not allow for an investment in any one issuer in excess of 10% of the investment portfolio on a notional basis, at the time of purchase. Exceptions to this policy are debt issues of the U.S. Government, mutual funds, external investment pools, and other pooled investments. There are no concentrations of credit risk.

Custodial Credit Risk—During fiscal years 2019 and 2018, no investments had associated custodial credit risk.

Foreign Currency Risk—The Research Foundation has no investments in foreign currencies.

(4) **Related Parties:**

University of Florida

The Research Foundation recognized license and royalty income allocations to Inventors' respective departments, colleges, and programs for \$57,708,332 and \$15,255,717 for the fiscal years ended June 30, 2019 and 2018, respectively, of which \$57,884,077 and \$15,570,670 were payable at June 30, 2019 and 2018, respectively.

The Research Foundation provided the University with research support of \$4,772,137 and \$1,482,248 for the fiscal year ended June 30, 2019 and 2018, respectively. There was no outstanding payable at June 30, 2019 and 2018.

Equity Ownerships

The Research Foundation has acquired equity positions in commercial enterprises as consideration for various license agreements [see Note (7)]. The Research Foundation has no cost basis for these positions and their fair value is not subject to reasonable estimations. Accordingly, the value of these investments is not reflected on the statement of net position.

If the positions become actively traded equities and the fair value can be determined, then the Research Foundation records the equity on its statement of net position at fair value and recognizes related income [see Notes (7) and (8)].

Additionally, as per the individual agreements, the Research Foundation receives license fees and royalties from companies in which the Research Foundation has an equity position and monitors their ownership position in each of the companies.

Contract Services

The Research Foundation has no employees and is supported by employees of the University. The Research Foundation reimburses the University, based on a valuation that is determined by specific employees' time, pay rate, and fringe benefits. The Research Foundation reimbursed the University \$3,305,416 and \$3,052,546 for such services during fiscal years 2019 and 2018, respectively.

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

(5) Funds Held on Behalf of Others:

The Research Foundation held funds on behalf of the Research Foundation affiliated entities. The Research Foundation collected payments for licensed space on behalf of the Hub, Sid Martin Biotech, and Office of Research during fiscal years 2019 and 2018. The Research Foundation also held shares on behalf of the Law School [see Note (7)].

Changes in funds held on behalf of others are as follows for the fiscal years ended June 30:

	<u>2019</u>	<u>2018</u>
Balances , beginning of year	\$ 3,523,198	\$ 2,609,603
Additions	3,336,712	2,778,994
Deductions	<u>(2,179,107)</u>	<u>(1,865,399)</u>
Balances , end of year	<u>\$ 4,680,803</u>	<u>\$ 3,523,198</u>

(6) Unrestricted Net Position:

Unrestricted Net Position is classified as follows at June 30:

	<u>2019</u>	<u>2018</u>
Designated		
Gatorade Fund —This component represents funds that are discretionary to the President of the Research Foundation to support the Research Enterprise of the University. These funds arise by virtue of a stipulation and subsequent agreements to the sale of Gatorade	\$ 82,639,386	\$ 79,643,652
Other Research Commitments	12,000,000	3,050,000
Total Designated	<u>94,639,386</u>	<u>82,693,652</u>
Undesignated		
This component represents funds that have not been designated for any purpose by the Board of Directors and are readily available for expenditure, in accordance with the purpose and bylaws of the Research Foundation [see Note (1) (a)]	11,894,675	19,360,377
Total Unrestricted Net Position	<u>\$ 106,534,061</u>	<u>\$ 102,054,029</u>

(7) Equity Ownerships:

In addition to revenues received for licensing fees of \$50,272,402 and \$2,897,309 in fiscal years 2019 and 2018, respectively, the Research Foundation has also acquired equity positions in commercial enterprises as consideration for license agreements. The Research Foundation has no cost basis in these investments, and their market value is not subject to reasonable estimations. Accordingly, the value of these investments is not reflected on the Statements of Net Position.

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

(7) **Equity Ownerships:** (Continued)

The following table is a summary of the Research Foundation's ownership positions and shares or units owned in each at June 30:

	<u>2019</u>	<u>2018</u>
aaVective, Inc.	134,100	134,100
Abfero Pharmaceuticals, Inc.	100,625	100,625
Advanced Therapies, Inc.	-	583,821
Apollidon, Inc.	24,157	24,157
ARMASI, Inc.	50	50
Audigence, Inc.	-	60,000
Banyan Biomarkers, Inc.	1,706,275	1,706,275
Benson Hill Biosystems, Inc.	10,000	10,000
BioProdex, Inc.	150	150
Brammer Bio, LLC	-	583,333
Clinipace, Inc.	228,079	228,079
CoMentis, Inc.	198,253	198,253
Comm-N-Sense Corp.	29,000	29,000
Cool Flow Dynamics, Inc.	7,000	7,000
Curtis Healthcare, Inc.	268,122	268,122
Encor Biotechnology, Inc.	12,000	12,000
Entrinsic Health Solutions, Inc.	663,254	663,254
Eragen Biosciences, Inc.	-	71,254
Gila Therapeutics, Inc.	75,598	75,598
Immunomic Therapeutics, Inc.	50,000	-
Key Medical Technologies, Inc.	49,500	49,500
Lacerta Therapeutics, Inc.	526,400	526,400
Morphogenesis, Inc.	230,923	230,923
Nanophotonica, Inc.	2,307,773	2,307,773
NanoTherics, Ltd.	570	570
Nirvana Therapeutics, Inc.	45,000	-
Novacyte Biosciences	1,350,000	1,350,000
NuVax Therapeutics, Inc.	610,000	610,000
NxtGen Nano, Inc.	3,949,737	3,949,737
OBMedical Company	-	123,107
Oceanyx Pharmaceuticals, Inc.	31,579	31,579
Ology Bioservices, Inc.	35,000	35,000
Oracle Diagnostics, Inc.	239,940	239,940
PC-Age Systems, Inc.	-	20
PRB Environmental Group, Inc.	-	100
Prana Therapeutics, Inc.	251,500	251,500
Prioria Robotics, Inc.	-	54,122
QuantumBio, Inc.	524,822	524,822
Red Lambda, Inc.	192,857	192,857

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

(7) **Equity Ownerships:** (Continued)

	2019	2018
ReliOx Corp.	25,000	25,000
Sabratek Corp.	-	3,973
Sentinel Diagnostic Imaging, Inc.	60,000	60,000
Shadow Learning, Inc.	5,362	5,362
Sharklet, Inc.	228,151	228,151
Sinmat, Inc.	4,636	4,636
Smart Structures, Inc.	-	6,385
Sol-Gel Solutions, Inc.	2	2
StrideBio, Inc.	41,250	41,250
Structured Monitoring Products, Inc.	400,000	400,000
TAO Connect, Inc.	26,316	26,316
TearClear Corp.	424,939	424,939
Vala Sciences, Inc.	38,213	38,213
Xhale, Inc.	1,807,292	1,807,292
Xortx Therapeutics, Inc.	1,887,592	1,887,592
AgyPharma, LLC	10% of Units	10% of Units
Apeliotus Life Science Holdings, LLC	15,000 Units	15,000 Units
Axoxy Laboratories LLC	5% of Units	5% of Units
CerBurg Products, Ltd.	8 Units	8 Units
Cooley Biotech, Inc.	15% of Units	15% of Units
CryptoDrop, LLC	-	5% of Units
Enviroflux, LLC	632 Units	632 Units
Evident Energy Ltd.	2.5% of Units	2.5% of Units
Evolugate, LLC	7,374 Units	7,374 Units
Florida Insect Control Group, LLC	5% of Units	5% of Units
Lastinger Learning Ventures, LLC	5% of Units	5% of Units
NirVision LLC	10% of Units	10% of Units
nRadiance, LLC	12% of Units	12% of Units
nVerPix, LLC	10% of Units	10% of Units
Orbytork, LLC	-	5% of Units
Osage Partners	2.5% of Units	2.5% of Units
Prometheon Pharma, LLC	10.05% of Units	10.05% of Units
RAPiD Genomics, LLC	10.20% of Units	10.20% of Units
Redox Power Systems, LLC	3.6% of Units	3.6% of Units
Satlantis, LLC	2% of Units	2% of Units
Seropeutics, LLC	10% of Units	10% of Units
SimuGrid Technology, LLC	5% of Units	5% of Units
XDG, LLC	4% of Units	4% of Units

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

(7) Equity Ownerships: (Continued)

Additionally, the Research Foundation has recorded the following equity interests at fair value as of June 30, 2019 and 2018. These interests are either stocks traded over-the-counter or partnership interests. Algernon Pharmaceuticals, Inc. (formerly Breathtec Biomedical, Inc.), Cannabix Technologies, Inc., Sun Biopharma, Inc., and uReveal, Inc. are valued at NAV [see Note (8)].

<u>Name of Security</u>	<u>2019</u>		<u>2018</u>	
	<u>Number of Shares</u>	<u>Amount</u>	<u>Number of Shares</u>	<u>Amount</u>
Algernon Pharmaceuticals, Inc.	234,081	\$ 19,760	468,162	\$ 9,184
Cannabix Technologies, Inc.	603,870	65,368	603,870	64,975
Inflexion Fund, LP	N/A	20,071	N/A	19,922
uReveal, Inc. *	586,503	-	586,503	-
Oragenics, Inc.	2,679	1,313	2,679	3,697
Sun BioPharma, Inc.	114,423	-	114,423	-
Total Equities		<u>\$ 106,512</u>		<u>\$ 97,778</u>

* Shares held on behalf of the Law School as investments, restricted [see Note (5)].

(8) Fair Value Measurements:

The Research Foundation categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Research Foundation has the following recurring fair value measurements as of June 30, 2019 and 2018:

Equity ownership funds – Valued at the daily closing price as reported by the fund (Level 1), at market prices for similar assets in active markets (Level 2) for securities that are actively traded on a frequent basis, or at NAV of units held, as reported by the fund advisor, for securities that are traded over-the-counter on a less frequent basis. NAV is used as a practical expedient, and the estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a readily available market for such investments existed, and differences could be material.

SPIA – Valued based on the ownership of a share of a pool, not the underlying securities. Pooled investments with the State Treasury are not registered with the Securities and Exchange Commission. Oversight of the pooled investments with the State Treasury is provided by the Treasury Investment Committee per Section 17.575, Florida Statutes. Participants contribute to the Treasury Pool on a dollar basis. These funds are commingled and a fair value of the pool is determined from the individual values of the securities. The fair value of the securities is summed and a total pool fair value is determined. A fair value factor is calculated by dividing the pool’s total fair value by the pool participants’ total cash balances. The fair value factor is the ratio used to determine the fair value of an individual participant’s pool balance. The fair value factor is 1.01013 and 0.9872 as of June 30, 2019 and 2018, respectively.

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

(8) **Fair Value Measurements:** (Continued)

The following table summarizes the assets and liabilities of the Research Foundation for which fair values are determined on a recurring basis as of June 30, 2019 and 2018, respectively:

<u>Description</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Fair Value</u>
June 30, 2019:				
Equity ownerships	\$ 1,313	\$ 20,071	\$ -	\$ 21,384
SPIA	-	-	110,018	110,018
Total assets in the fair value hierarchy	<u>\$ 1,313</u>	<u>\$ 20,071</u>	<u>\$ 110,018</u>	131,402
Investment measured at NAV*				85,128
Investments at fair value				<u>\$ 216,530</u>
<u>Description</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Fair Value</u>
June 30, 2018:				
Equity ownerships	\$ 3,697	\$ 19,922	\$ -	\$ 23,619
SPIA	-	-	105,045	105,045
Total assets in the fair value hierarchy	<u>\$ 3,697</u>	<u>\$ 19,922</u>	<u>\$ 105,045</u>	128,664
Investment measured at NAV*				74,159
Investments at fair value				<u>\$ 202,823</u>

* In accordance with GASB No. 72, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of net position.

The following table discloses the nature and risk of investments for which fair value has been estimated using the NAV per share of the investments as a practical expedient as of June 30, 2019 and 2018. The equity interests with \$0 estimated fair value are excluded from the table.

<u>Investments Measured at Net Asset Value as of June 30, 2019</u>				
<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>	
\$ 19,760	\$ -	Illiquid	N/A	Algernon Pharmaceuticals, Inc.*
65,368	-	Illiquid	N/A	Cannabix Technologies, Inc.
<u>\$ 85,128</u>	<u>\$ -</u>			

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

(8) **Fair Value Measurements:** (Continued)

Investments Measured at Net Asset Value as of June 30, 2018

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Breathtec Biomedical, Inc.*	\$ 9,184	\$ -	Illiquid	N/A
Cannabix Technologies, Inc.	64,975	-	Illiquid	N/A
	<u>\$ 74,159</u>	<u>\$ -</u>		

* Breathtec Biomedical, Inc. changed its name to Algernon Pharmaceuticals, Inc. during fiscal year 2019.

(9) **Concentrations:**

During the fiscal year ended June 30, 2019, the Research Foundation received approximately 75% of its total royalties, licensing fees, option fees, and management fees from two companies, compared with 74% received from two companies for the fiscal year ended June 30, 2018. The revenues from each of these companies individually accounted for at least 10% of total royalties and fees.

(10) **Risk Management:**

The Research Foundation is exposed to various risks of loss including suits against directors and officers, general liability, and property and casualty. Conventional and commercial insurance coverage has been purchased from various independent carriers to insure against such risks and minimize the Research Foundation's financial exposure to such risks.

The Research Foundation is not involved in any risk pools with other government entities.

(11) **Unit Repayments for the Cancer/Genetics Building:**

In August 2003, the Research Foundation issued \$35,000,000 in tax-exempt Capital Improvement Revenue Bonds for the purpose of financing a portion of a genetics and cancer research facility on the campus of the University. The bonds were originally issued at a variable interest rate. In August 2004, the Research Foundation converted these bonds to fixed interest rates ranging from 2.125% to 5.125%, resulting in an overall effective rate of 4.56%. The bonds were secured by a general obligation of the Research Foundation revenues or assets earned by the Research Foundation and were expected to mature in 2034.

Per the Research Foundation Board's decision in the year ended June 30, 2013 to redeem the bonds as soon as they became eligible, the Research Foundation redeemed \$22,600,000 in the year ended June 30, 2014 and redeemed the remaining \$6,500,000 during the year ended June 30, 2015.

The Research Foundation will still collect \$2,300,000 annually from the University's College of Medicine, the Institute for Food and Agricultural Sciences, and the College of Liberal Arts and Sciences through fiscal year 2033. Included in the accompanying Statements of Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2019 and 2018 are \$2,300,000 in unit repayments for the Cancer/Genetics Building.

INDEPENDENT AUDITORS' 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

Board of Directors
University of Florida Research Foundation, Inc.
Gainesville, Florida:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activity of the University of Florida Research Foundation, Inc. (the Research Foundation), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Research Foundation's basic financial statements, and have issued our report thereon dated September 16, 2019.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 over financial reporting 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 of 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

James Moore & Co., P.L.

Gainesville, Florida
September 16, 2019