

**CONSOLIDATED FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**THE UNIVERSITY OF CENTRAL FLORIDA  
RESEARCH FOUNDATION, INC. AND SUBSIDIARY  
ORLANDO, FLORIDA**

**JUNE 30, 2017 AND 2016**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND  
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**THE UNIVERSITY OF CENTRAL FLORIDA  
RESEARCH FOUNDATION, INC. AND SUBSIDIARY  
ORLANDO, FLORIDA**

**JUNE 30, 2017 and 2016**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
The University of Central Florida  
Research Foundation, Inc. and subsidiary  
Orlando, Florida

### **Report on the Financial Statements**

We have audited the accompanying consolidated statements of net position of The University of Central Florida Research Foundation, Inc. and subsidiary (the "Research Foundation") (a component unit of The University of Central Florida), as of June 30, 2017 and 2016, and the related consolidated statements of revenues, expenses, and changes in net position, cash flows and the related notes to the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Research Foundation as of June 30, 2017 and 2016, and the changes in the consolidated net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplemental Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated 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 consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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 25, 2017 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.

*Cam, Riggs & Ingram, L.L.C.*

Orlando, Florida  
September 25, 2017

## 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")) management prepared the following discussion and analysis of the Research Foundation's consolidated financial statements, as of and for the years ended June 30, 2017 and 2016. This discussion and analysis is intended to serve as an introduction to the Research Foundation's basic consolidated financial statements. It should be read in conjunction with the basic consolidated financial statements and notes thereof.

The report consists of the following:

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

The consolidated 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 consolidated statements of revenues, expenses, and changes in net position explain whether revenues 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 consolidated statements of cash flows are another way of assessing the Research Foundation's financial viability. The primary purpose of the consolidated statements of cash flows is to provide relevant information about cash receipts and cash payments of the Research Foundation throughout the fiscal year.

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

## FINANCIAL HIGHLIGHTS

**Net Position** – The consolidated statements of net position report all financial resources of the Research Foundation and subsidiary 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 exceed liabilities as of June 30, 2017 and 2016 by \$5,318,384 and \$4,337,858, respectively. Those amounts include the net position which was temporarily restricted as of June 30, 2017 and 2016 of \$755,135 and \$762,296 respectively. The following schedule is a summary of the Research Foundation's consolidated statements of net position.

## CONSOLIDATED STATEMENTS OF NET POSITION

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Assets:		
Current Assets	\$ 14,447,860	\$ 10,787,540
Noncurrent Assets	<u>\$ 590,118</u>	<u>\$ 1,132,528</u>
<b>Total Assets</b>	<u><b>\$ 15,037,978</b></u>	<u><b>\$ 11,920,068</b></u>
Liabilities:		
Current Liabilities	<u>\$ 9,719,594</u>	<u>\$ 7,582,210</u>
<b>Total Liabilities</b>	<u><b>\$ 9,719,594</b></u>	<u><b>\$ 7,582,210</b></u>
Net position:		
Unrestricted	\$ 4,563,249	\$ 3,575,562
Temporarily Restricted	<u>\$ 755,135</u>	<u>\$ 762,296</u>
<b>Total net position</b>	<u><b>\$ 5,318,384</b></u>	<u><b>\$ 4,337,858</b></u>

During fiscal year 2017, total assets increased by \$3,117,910 primarily due to a decrease in cash of \$34,184, an investment decrease of \$96,905, a decrease in prepaid expenses of \$19,600, a decrease in accounts receivable of \$160,736, all offset by an increase in Due From UCF \$3,429,335. Total liabilities increased by \$2,137,384 due to liabilities related to the increase in restricted cash for contracts, grants, restricted contributions, other agreements and research initiatives of \$553,339 plus an increase of other additional payables of \$1,584,045.

A portion of the Due From UCF is restricted for use on contracts, grants, donations and other agreements. In FY2017 this amount was \$7,485,591.

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

## CONSOLIDATED REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>Unrestricted Net Position</b>		
Operating Revenue	\$ 12,384,265	\$ 8,935,470
Net Position Released from Restrictions	\$ 317,922	\$ 177,188
Operating Expenses	<u>\$ (11,683,412)</u>	<u>\$ (9,937,860)</u>
Operating Income (Loss)	\$ 1,018,775	\$ (825,202)
Non-operating Revenues (Expenses)	<u>\$ (31,088)</u>	<u>\$ 155,705</u>
Increase (Decrease) in Net Position	\$ 987,687	\$ (669,497)
Net Position, Beginning of Year	<u>\$ 3,575,562</u>	<u>\$ 4,245,059</u>
<b>Unrestricted Net Position, End of Year</b>	<u><b>\$ 4,563,249</b></u>	<u><b>\$ 3,575,562</b></u>

**CONSOLIDATED REVENUES, EXPENSES, AND CHANGES IN NET POSITION – continued:**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>Temporarily Restricted Net Position</b>		
Restricted Contribution Revenue	\$ 310,761	\$ 176,617
Net Position Released from Restrictions	<u>\$ (317,922)</u>	<u>\$ (177,188)</u>
Increase (Decrease) in Net Position	\$ (7,161)	\$ (571)
Net Position, Beginning of Year	<u>\$ 762,296</u>	<u>\$ 762,867</u>
Temporarily Restricted Net Position, End of Year	<u>\$ 755,135</u>	<u>\$ 762,296</u>

**Analysis of Operating Revenue** – Operating revenue includes royalties, contracts and grants, other agreements, and research initiatives. In fiscal year 2017, operating revenue was more than fiscal year 2016 by \$3,448,795 due to an increase in royalties and licensing fees, projects related to contracts, grants, other agreements, research initiatives, and other miscellaneous income of \$3,892,697 netted with a decrease in other agreements income of \$606,182, and an increase in royalty profit on investment of \$162,280. The increase in royalty profit on investment was a result of the valuation of the Finisar Corporation stock at June 30<sup>th</sup>, 2017.

**Analysis of Non-operating Revenue (Expenses)** – Non-operating revenues (expenses) interest, investment gains and losses, and dividends. In fiscal year 2017, non-operating revenue (expense) was less than fiscal year 2016 by \$186,793 due to a decrease in loss on investments of \$270,059 offset by an increase in Investment Revenue of \$83,266.

**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 provisions have been met. Total restricted contribution revenue received during fiscal year 2017 was \$310,761 compared to \$176,617 received in fiscal year 2016.

**ANALYSIS OF CONSOLIDATED OPERATING EXPENSES**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Operating Expenses:		
Contracts, Grants, Contributions, Royalty and License Expense, Other Agreements and Research Initiatives	\$ 10,796,747	\$ 9,011,827
Royalty Expense Valuation on Investments	\$ 133,875	\$ (5,689)
ORC and Other Expenses	\$ 269,314	\$ 322,128
Salaries and Other Benefits	\$ 454,238	\$ 576,000
Professional Expenses	<u>\$ 29,238</u>	<u>\$ 33,594</u>
Total Operating Expenses	<u>\$ 11,683,412</u>	<u>\$ 9,937,860</u>

## ANALYSIS OF CONSOLIDATED OPERATING EXPENSES - continued

Operating expenses were \$1,745,552 greater in fiscal year 2017 than in fiscal year 2016. Contracts, grants, and research initiatives expense were \$2,073,703 greater in fiscal year 2017 while other agreements and contribution expense decreased by \$1,631,572 in fiscal year 2017. Royalty and licensing expense increased in fiscal year 2017 by \$1,342,789. ORC sponsored activities decreased by \$52,814 and salaries and other benefits and professional services decreased of \$126,118. Royalty expense valuation also increased by \$139,564.

## ANALYSIS OF CONSOLIDATED CASH FLOWS

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Cash Flows:		
Net Cash Provided (Used) by		
Operating Activities	\$ 3,173,665	\$ (910,150)
Net Cash Provided (Used) by Investing		
Activities	<u>\$ 221,486</u>	<u>\$ 495,452</u>
Net Increase (Decrease) in Cash		
and Cash Equivalents	\$ 3,395,151	\$ (414,698)
Cash and Cash Equivalents,		
Beginning of Year	<u>\$ 8,348,164</u>	<u>\$ 8,762,862</u>
Cash and Cash Equivalents,		
End of Year	<u>\$ 11,743,315</u>	<u>\$ 8,348,164</u>

Overall cash and cash equivalents increased by \$3,395,151 in fiscal year 2017. This was primarily due to contracts, grants, other agreements, ORC contributions, and research initiatives cash received exceeding related cash payments by \$1,000,259, other disbursements net cash received a negative of \$9,638, royalty cash received exceeding royalty allocation payouts of \$2,183,044, and a net cash decrease for investing activities of \$221,486.

## OTHER SIGNIFICANT EVENTS

On April 1st, 2010, a building was donated by Intersil Corp. to the wholly owned subsidiary of the UCF Research Foundation, the UCF Research Foundation Real Estate LLC. Based on a contemporaneous appraisal, this non-cash donation was recorded in the consolidated statements of the UCF Research Foundation at a value of \$13,065,000. The assets were recorded as Land, \$2,613,000 and Building, \$10,452,000 with a 20 year life on the building. Depreciation was being incurred on a straight line basis. The agreement states that Intersil will pay for a general list of repairs including the roof and parking lot repairs not to exceed \$120,000 and all services for the property not to exceed \$150,000 for a period of one year. Under the terms of the donation, the UCF Research Foundation Real Estate LLC can unilaterally elect to return the building within a three year period. The Board elected to return the building per the June 2013 special Board Meeting, resulting in a write down of the Land and Building of \$11,889,150. The building was returned on July 19<sup>th</sup>, 2013.

BRIDG activity prior to 12/31/2016 was included in the UCF Research Foundation's activity. The effect of BRIDG's activity included on the Research Foundation's consolidated financial statements consists of Restricted Contribution expense of \$500,000 and the related \$500,000 of Contribution Expense.

## **ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE**

Since the Research Foundation has no employees, funding for employees is provided by the University. 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.

**CONSOLIDATED STATEMENTS OF NET POSITION**  
**JUNE 30, 2017 AND 2016**  
**THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC. AND SUBSIDIARY**  
**ORLANDO, FLORIDA**

**ASSETS**

	<b>2017</b>	<b>2016</b>
<b>Current Assets</b>		
Cash	\$ 377,357	\$ 411,541
Due From UCF	11,365,958	7,936,623
Cash with Fiscal Agent		
Accounts Receivable (Net of Allowance for Doubtful Accts)	2,704,545	2,419,776
Prepaid Expenses	-	19,600
<b>Total Current Assets</b>	14,447,860	10,787,540
<b>Noncurrent Assets</b>		
Investments	590,118	687,023
Long-Term Accounts Receivable, Net of Allowance for	-	445,505
<b>Total Noncurrent Assets</b>	590,118	1,132,528
<b>Total Assets</b>	\$ 15,037,978	\$ 11,920,068

**LIABILITIES AND NET POSITION**

<b>Current Liabilities</b>		
Accounts Payable	\$ 239,733	\$ 264,110
Allocations and F&A Payable	2,749,405	1,140,983
Deferred Restricted Revenues	6,730,456	6,177,117
<b>Total Current Liabilities</b>	9,719,594	7,582,210
<b>Net Position</b>		
Unrestricted	4,563,249	3,575,562
Temporarily Restricted	755,135	762,296
<b>Total Net Position</b>	5,318,384	4,337,858
<b>Total Liabilities and Net Position</b>	\$ 15,037,978	\$ 11,920,068

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016  
THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC. AND SUBSIDIARY  
ORLANDO, FLORIDA**

	<b>2017</b>	<b>2016</b>
<b><u>Unrestricted Net Position</u></b>		
<b>Operating Revenues</b>		
Royalties and Licensing Fees	\$ 2,882,311	\$ 1,297,204
Royalty Profit (Loss) on Investment	155,669	(6,611)
Contracts and Grants	6,034,593	4,366,328
Other Agreements Income	345,611	951,793
Research Initiatives	1,835,201	1,709,152
ORC Contributions and Miscellaneous Income	1,130,880	617,604
Net Position Released from Restrictions	317,922	177,188
<b>Total Operating Revenues</b>	<b>12,702,187</b>	<b>9,112,658</b>
<b>Operating Expenses</b>		
Royalties and Licensing Allocations	2,128,162	785,373
Royalties Expense Valuation Account	133,875	(5,689)
Contracts and Grant Expenses	6,034,593	4,366,328
Other Agreements Expense	345,611	951,793
Contribution Expense	325,084	1,350,474
Research Initiatives	1,963,297	1,557,859
ORC and Other Expenses	269,314	322,128
Salaries and Other Benefits	454,238	576,000
Professional Expenses	29,238	33,594
<b>Total Operating Expenses</b>	<b>11,683,412</b>	<b>9,937,860</b>
<b>Net Operating Revenues (Expenses)</b>	<b>1,018,775</b>	<b>(825,202)</b>
<b>Non-operating Revenues (Expenses)</b>		
Investment Revenue	221,486	138,220
Investment Gain (Loss)	(252,574)	17,485
<b>Total Non-operating Revenues (Expenses)</b>	<b>(31,088)</b>	<b>155,705</b>
<b>Increase in Unrestricted Net Position</b>	<b>987,687</b>	<b>(669,497)</b>
<b>Unrestricted Net Position, Beginning of Year</b>	<b>3,575,562</b>	<b>4,245,059</b>
<b>Unrestricted Net Position, End of Year</b>	<b>\$ 4,563,249</b>	<b>\$ 3,575,562</b>

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016  
THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC. AND SUBSIDIARY  
ORLANDO, FLORIDA**

	<b>2017</b>	<b>2016</b>
<b><u>Temporarily Restricted Net Position</u></b>		
Restricted Contribution Revenue	\$ 310,761	\$ 176,617
Net Position Released from Restrictions	(317,922)	(177,188)
<b>Increase in Temporarily Restricted Net Assets</b>	(7,161)	(571)
<b>Temporarily Restricted Net Position, Beginning of Year</b>	762,296	762,867
<b>Temporarily Restricted Net Position, End of Year</b>	\$ 755,135	\$ 762,296
<b>Total Net Position</b>	\$ 5,318,384	\$ 4,337,858

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**  
**THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC. AND SUBSIDIARY**  
**ORLANDO, FLORIDA**

	<b>2017</b>	<b>2016</b>
<b>Cash Flows from Operating Activities</b>		
Cash Received (Used) for:		
Licensing Fees and Royalties	\$ 2,836,659	\$ 926,926
Contract, Grants, Contributions and Research Initiatives	9,285,893	7,294,200
ORC Contributions and Expenses	861,566	295,476
Royalties and Licensing Allocations	(653,615)	(461,698)
Contract, Grants, Contributions and Research Initiatives	(9,147,200)	(8,335,860)
Other Disbursements	(9,638)	(629,194)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>3,173,665</b>	<b>(910,150)</b>
<b>Cash Flows from Investing Activities</b>		
Investment Revenue	221,486	138,220
Purchase or Sale of Investments	-	357,232
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>221,486</b>	<b>495,452</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	3,395,151	(414,698)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>8,348,164</b>	<b>8,762,862</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 11,743,315</b>	<b>\$ 8,348,164</b>
<b><u>Presented in the Consolidated Financial Statements as:</u></b>		
Cash	\$ 377,357	\$ 411,541
Due From UCF	11,365,958	7,936,623
<b>Total Presented to the Consolidated Financial Statements</b>	<b>\$ 11,743,315</b>	<b>\$ 8,348,164</b>
<b><u>Cash Flows from Operating Activities</u></b>		
Net Operating Revenues	\$ 1,018,775	\$ (825,202)
Decrease in Restricted Net Assets	(7,161)	(571)
Loss (Gain) in Fair Value of Operating Investments	(155,669)	6,611
Royalty Expense Valuation Account Adjustment	133,875	(5,689)
Provision for Doubtful Accounts	-	-
TekCapital Stock Received as Royalty Income	-	(48,162)
Adjustments to Reconcile Change in Net Position to Net Cash		
Provide by (Used in) Operating Activities:		
Decrease (Increase) in Accounts Receivable	(284,769)	(608,186)
Increase in Prepaid Expenses	19,600	(19,600)
Increase in Accounts Receivable Long Term	445,505	(445,505)
Decrease in Accounts Payable	(24,377)	(109,406)
Increase in Allocations and F&A Payable	1,474,547	323,675
Increase in Deferred Restricted Revenues	553,339	821,885
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ 3,173,665</b>	<b>\$ (910,150)</b>

See accompanying notes to consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016  
THE UNIVERSITY OF CENTRAL FLORIDA  
RESEARCH FOUNDATION, INC. AND SUBSIDIARY  
ORLANDO, FLORIDA**

**Note 1 - Summary of Significant Accounting Policies**

**Reporting Entity**

**Organization and Purpose**

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 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 subsequently returned to Intersil. There was no activity for the LLC for the years ended June 30, 2017 and 2016.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016  
THE UNIVERSITY OF CENTRAL FLORIDA  
RESEARCH FOUNDATION, INC. AND SUBSIDIARY  
ORLANDO, FLORIDA  
(Continued)**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**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. 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 consolidated financial statements are included in the University's financial statements.

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 deferred restricted revenues 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016  
THE UNIVERSITY OF CENTRAL FLORIDA  
RESEARCH FOUNDATION, INC. AND SUBSIDIARY  
ORLANDO, FLORIDA  
(Continued)**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Principles of Consolidation**

The consolidated financial statements include the accounts of The University Central Florida Research Foundation, Inc. and its wholly owned subsidiary, UCF Research Foundation Real Estate LLC. All intercompany accounts and transactions have been eliminated.

**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 in checking, repurchase sweep account, and amounts held by UCF.

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

Due From UCF consists of amounts held by the UCF Foundation and 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 150, *Investments*. Under this provision, investments are recorded at fair value on the consolidated statements of net position. Investment income, including changes in the fair value of investments, is reported as revenue in the consolidated statements of revenues, expenses and changes in net position.

Fair value is based on 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.

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(Continued)**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**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, 2017 and 2016 was \$73,321.

**Fair Value of Financial Instruments**

The Research Foundation did not hold any derivative instruments for trading purposes at June 30, 2017 and 2016, 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 1 year. Maintenance and repairs are charged to expense when incurred, betterments are capitalized.

**Allocations Payable**

Allocations payable consist of royalty and license fee distributions accrued to individuals, University departments, and Colleges/Institutes 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 Colleges/Institutes responsible for the project.

**Deferred Restricted Revenues**

Deferred restricted revenues consist 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 Revenues**

The Research Foundation classifies its revenues as operating or non-operating according to the following criteria:

- **Operating Revenues**—include 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 revenues.
- **Non-operating Revenues**—include activities that are not normal Research Foundation operating activities, such as investment income and investment gains and losses.

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(Continued)**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**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 & 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 at no cost to the Research Foundation by the Office of Research and Commercialization, a division of the University.

**Reclassifications**

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

**Note 2 - Cash and Cash Equivalents**

**Custodial Credit Risk**

At June 30, 2017 and 2016, funds of approximately \$11,366,000 and \$7,940,000 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 FDIC and are included in the accompanying consolidated 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, 2017 and 2016 was \$159,845 and \$175,973, respectively. This amount is not included in the deposit amount uninsured by FDIC.

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**Note 3 - 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 deferred to the President and the Vice President of the Research Foundation. All investments are held in the name of the Research Foundation.

Investments consist of the following as of June 30:

	<u>Stated Value Method</u>	<u>2017</u>	<u>2017 Portfolio Percentage</u>	<u>2016</u>
Corporate Stock: Finisar Corporation	FMV	\$ 477,486	81%	\$ 321,816
Preferred Stock: iTomography	Cost	-		50,000 170
Investment in Geometric Intelligence	Cost	-		
Investment in IQ Orlando, Inc.(25% Owned)	Equity	-		174,214
Investment in Banyan Fund	FMV	103,422	18%	129,093
Investment in Inflexion, LLC	FMV	9,210	1%	11,730
		<u>\$ 590,118</u>	100%	<u>\$ 687,023</u>

During the year ended June 30, 2017, the investments held in the iTomography preferred stock and IQ Orlando, Inc. were written down to zero due to the uncertainty of the value as compared to the basis due to the lack of an active, ready market for these. The loss on this write down is included in the accompanying consolidated statements of revenues, expenses, and changes in net position as investment loss.

**Credit Risk and Concentration of Credit Risk**

Credit risk exists when there is a possibility the issuer or other counter-party to an investment may be unable to fulfill its obligations. As of June 30, 2017 and 2016, 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.

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**Note 4 - Risk Management**

The Research Foundation has no employees. Its staff and offices are provided by The University of Central Florida, which is covered by their self-insurance and other commercial insurance coverage, as applicable.

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. Commercial insurance against losses is provided for the following types of risk:

- Business
- Property Damage
- Liability
- Director's and Officers Liability

**Note 5 - Fair Value of Financial Instruments**

Generally Accepted Accounting Principles (GAAP) defines fair value, establishes a framework for measuring fair value, and enhances disclosures about fair value measurement. Fair value is defined as an exchange price that would be received for an asset or paid to transfer a liability (an "exit" price) in the principal or most advantageous market for the asset or liability between market participants on the measurement date. The Research Foundation determines the fair value of financial instruments based on the fair value hierarchy described in GAAP which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. GAAP describes the following three levels of inputs that may be used to measure fair value:

**Level 1** Unadjusted quoted market prices in active markets for identical assets or liabilities.

**Level 2** Observable inputs other than quoted market prices and can include active markets and markets not considered to be active.

**Level 3** Unobservable inputs that are supported by little or no market activity.

The carrying amounts of cash equivalents, accounts receivable, accounts payable, and allocations and F&A payable approximate fair value because of the short maturity of these instruments. The fair value measurements of the cash equivalents in the repurchase agreement and Finisar 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.

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**Note 5 – Fair Value of Financial Instruments (Continued)**

Assets measured at fair value on a recurring basis as of June 30, 2017 and 2016 are summarized as follows:

June 30, 2017	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash Equivalents: Repurchase Agreement	\$ 159,845	\$ -	\$ -
Corporate Stock: Finisar Corporation	477,486	-	-
Investment in Banyan Fund	-	103,422	-
Investment in Inflexion, LLC	-	9,210	-
	<u>\$ 637,331</u>	<u>\$ 112,632</u>	<u>\$ -</u>
June 30, 2016	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash Equivalents: Repurchase Agreement	\$ 175,973	\$ -	\$ -
Corporate Stock: Finisar Corporation	321,816	-	-
Investment in Banyan Fund	-	129,093	-
Investment in Inflexion, LLC	-	11,730	-
	<u>\$ 497,789</u>	<u>\$ 140,823</u>	<u>\$ -</u>

**Note 6 - 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 6 years. 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 \$164,000 and \$160,000 for the years ended June 30, 2017 and 2016, respectively.

Future minimum rental payments for the years ended June 30, are as follows:

2018	\$ 171,186
2019	\$ 178,113
2020	<u>\$ 44,967</u>
	<u>\$ 394,266</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**Note 6 - Operating Leases (Continued)**

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. 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 \$243,000 and \$282,000 for the years ended June 30, 2017 and 2016, respectively.

Future minimum rental payments for the years ended June 30, are as follows:

	2018	\$ 242,918
	2019	\$ 252,589
	2020	<u>\$ 63,498</u>
		<u>\$ 559,005</u>

**Note 7 - Temporarily Restricted Net Position**

The temporarily restricted net position of \$755,135 and \$762,296 was available for research initiatives at June 30, 2017 and 2016, respectively. The temporarily restricted net position was released from donor and principal investigator restrictions by incurring expenses satisfying the restricted purposes of research activities of \$317,922 and \$177,188 during the years ended June 30, 2017 and 2016, respectively.

**Note 8 - ICAMR effect on the Research Foundation financials**

During 2015, International Consortium for Advanced Manufacturing Research (ICAMR, Inc. or "ICAMR" DBA BRIDG "BRIDG") was formed. BRIDG is a Florida not-for-profit corporation, established June 5, 2014, through the collaboration of UCF, the Research Foundation, Osceola County ("Osceola"), Florida High Tech Corridor Council, Inc. ("FHTCC"), and other collaborators, with a mission to promote local economic development and commercialization of advanced photonics and sensor technologies, to lead development of a high impact industry center by growing new, and attracting, high-tech companies, and to promote cooperative research and development by leveraging the capabilities of research and development by leveraging the capabilities of UCF and other educational institutions to accelerate the advancement of sensor-photonics manufacturing and development. Prior to entity operating on its own on December 31, 2016, this activity was recorded as a project of the Research Foundation. The BRIDG activity that was included in the Research Foundation's consolidated financial statements for the year ended June 30, 2016 was Restricted Contribution income of \$500,000 and the related \$500,000 of Contribution Expense.

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**Note 9 - 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 four applied research projects included in the Research Foundation’s financial statements for the year ended June 30, 2017. Revenue and expenses related to these projects was \$199,622.

**Note 10 - Subsequent Events**

The Research Foundation has evaluated subsequent events and transactions for potential recognition or disclosure in the consolidated financial statements through September 25, 2017, the date the consolidated financial statements were available to be issued.

**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  
The University of Central Florida  
Research Foundation, Inc. and subsidiary  
Orlando, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of The University of Central Florida Research Foundation, Inc. and subsidiary (the "Research Foundation"), which comprise the consolidated statement of net position as of June 30, 2017, and the related consolidated statements of revenues, 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 September 25, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered 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 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Research Foundation's consolidated 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 consolidated 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.

*Caru, Riggs & Ingram, L.L.C.*

Orlando, Florida  
September 25, 2017