

Florida Atlantic University
Research Corporation
(A Component Unit of
Florida Atlantic University)

Year Ended
June 30, 2022

Financial
Statements

Rehmann

FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION

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INDEPENDENT AUDITORS' REPORT

October 25, 2022

To the Board of Directors
Florida Atlantic University Research Corporation
Boca Raton, Florida

Opinion

We have audited the accompanying financial statements of the **Florida Atlantic University Research Corporation** (the "Corporation"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, based on our audit, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Corporation, as of June 30, 2022, and the respective changes in financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Independent Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.



In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Independent Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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, under separate cover, our report dated October 25, 2022, on our consideration of the Corporation’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation’s internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Lehmann Lobson LLC". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION

Management's Discussion and Analysis

These financial statements are the responsibility of management of the *Florida Atlantic University Research Corporation* (the "Corporation"). We offer readers this narrative overview and analysis for the fiscal year ended June 30, 2022. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- Ending net position at June 30, 2022 \$ 568,436
- Change in total net position for the year ended June 30, 2022 22,596

Overview of the Financial Statements

Basic Financial Statements. The Corporation's financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles promulgated by the Government Accounting Standards Board. The Corporation is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. See Note 1 to the financial statements for a summary of the Corporation's significant accounting policies.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis

The Corporation's net position increased \$22,596 over the course of the fiscal year 2022 to a total of \$568,436. Explanations for those changes are provided below.

	Net Position	
	2022	2021
Assets		
Current assets	<u>\$ 568,436</u>	<u>\$ 637,698</u>
Net position		
Unrestricted	<u>\$ 568,436</u>	<u>\$ 545,840</u>

FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION

Management's Discussion and Analysis

The following condensed financial information was derived from the statement of revenues, expenses and changes in fund net position and reflects how the Corporation's net position changed during the fiscal year:

	Change in Net Position	
	2022	2021
Operating revenues	\$ 218,142	\$ 258,516
Operating expenses	182,437	245,779
Investment loss	<u>(13,109)</u>	<u>(12,906)</u>
Change in net position	22,596	(169)
Net position, beginning of year	<u>545,840</u>	<u>546,009</u>
Net position, end of year	<u>\$ 568,436</u>	<u>\$ 545,840</u>

For the years ended June 30, 2022 and 2021, the increase in net position was due to an increase in royalties received. Our mature agreements with Edge One and Interact Holding have leveled off, and we received no royalties from Harris Corporation in FY22, but newer agreements are responsible for the uptick in revenues, and ultimately our increase in net position. OP Solutions royalty revenues increased in FY22 and specifically, the Option Agreement with Oscilloscope, LLC yielded royalty income of \$50,000 in FY22, resulting in an increase of net income to FAURC in the amount of \$21,250.

Economic Condition and Outlook

The Corporation make-up of cash and investments contains funds invested in the State of Florida Special Purpose Investment Account (SPIA); which totaled approximately \$568,436 and \$545,840 at June 30, 2022 and 2021, respectively.

In addition to our existing royalty producers, there are other signed agreements that could result in initial fees being paid to the Corporation as early as this fiscal year. One such agreement with Brown University and Elkurt, Inc. could yield an initial fee resulting in an increase in net income of \$20,000 to the Corporation. As with Harris Corporation and Oscilloscope, a payment from Elkurt may be a one-time payment, unless a licensing agreement is negotiated.

To provide further assistance to the research mission of this direct support organization, the Corporation is planning to submit an investment policy to the Board of Directors seeking approval to invest in start-up companies.

Requests for Information

Questions concerning information provided in the MD&A, financial statements and notes thereto, or requests for additional financial information should be addressed to the Assistant Vice President, Financial Management and Research Corporation Treasurer – Division of Research, Florida Atlantic University Research Corporation, FAU Harbor Branch, 5600 US 1 North, Link Building, Room 244, Fort Pierce, FL 34946.

BASIC FINANCIAL STATEMENTS

FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION

Statement of Net Position

June 30, 2022

Assets

Current assets	
Cash	\$ 113,620
Investment	454,453
Interest receivable	<u>363</u>
Total assets	<u>\$ 568,436</u>
Net position	
Unrestricted	<u>\$ 568,436</u>

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

FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION

Statements of Revenue, Expenses and Changes in Fund Net Position

For the Year Ended June 30, 2022

Operating revenues	
Royalties, licensing and fees	\$ 160,857
Grants	38,093
Other operating revenue	<u>19,192</u>
Total operating revenues	<u>218,142</u>
Operating expenses	
Program and other expenses	76,130
Royalty, licensing and fee expenses	<u>106,307</u>
Total operating expenses	<u>182,437</u>
Operating income	35,705
Non-operating expenses	
Net investment loss	<u>(13,109)</u>
Change in net position	22,596
Net position, beginning of year	<u>545,840</u>
Net position, end of year	<u><u>\$ 568,436</u></u>

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

FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION

Statement of Cash Flows

For the Year Ended June 30, 2022

Cash flows from operating activities

Cash receipts from royalties, licensing and fees	\$ 255,857
Cash receipts from grants	38,093
Cash receipts from other operating revenue	19,202
Payments to suppliers and others	<u>(274,295)</u>

Net cash provided by operating activities **38,857**

Cash flows from investing activities

Sale/purchase of investments	<u>759</u>
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Net change in cash **39,616**

Cash, beginning of year 74,004

Cash, end of year **\$ 113,620**

Reconciliation of change in operating income to net cash provided by operating activities

Operating income	\$ 35,705
Adjustments to reconcile net operating income to net cash provided by operating activities	
Change in operating assets and liabilities that provided (used) cash	
Royalties, licensing, and grants receivable	95,000
Interest receivable	10
Royalties, licensing, and grants payable	<u>(91,858)</u>

Net cash provided by operating activities **\$ 38,857**

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

FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the *Florida Atlantic University Research Corporation* (the "Corporation") conform to generally accepted accounting principles as applied to business-type activities. The following is a summary of the significant policies.

Reporting Entity

On November 21, 1990, the Florida Atlantic University Research Corporation, Inc., (the "Corporation") was incorporated as a not-for-profit organization under Chapter 617, Florida Statutes. The Corporation is a direct support organization of the Florida Atlantic University (the "University"), a part of the State university system of public universities. The Corporation was organized for the purpose of promoting, encouraging, and providing assistance to the research and training activities of the University's faculty, staff, and students. The Corporation has been granted certain rights and responsibilities for the development, protection and commercial application of defined intellectual property. The Corporation is entitled to a portion of the royalties and/or license fees associated with the intellectual property for the benefit of the University. From time to-time, the Corporation may obtain ownership in partnering commercial entities related to such intellectual property. Management of the Corporation determines the value of the ownership interest in these commercial entities. The Board of Directors is the governing body of the Corporation. The University's Board of Trustees can unilaterally allow for a decertification of the Corporation and cause for dissolution of the Corporation, resulting in all assets reverting to the University. Consequently, the Corporation meets the criteria for inclusion in the University's reporting entity as a component unit.

During 2004, the Corporation formed Hoot/Wisdom Recordings, LLC; Hoot/Wisdom Music Publishing, LLC; and Hoot/Insight Music Publishing, LLC (collectively, the LLCs) to benefit the University's research and educational programs. As the LLCs generate financial activity, such activity is consolidated with the Corporation's activities.

The Corporation also accepts and administers contracts and grants from private industry, foundations, and other agencies.

Basis of Presentation

All operations of the Corporation are accounted for in a single enterprise fund (a type of proprietary fund). Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION

Notes to Financial Statements

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The economic resources measurement focus and the accrual basis of accounting are used in preparing the financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Restricted net position is reported for assets that are subject to restrictions beyond the Corporation's control, less any liabilities payable from such restricted assets. The restrictions may be externally imposed or imposed by law. When both restricted and unrestricted resources are available for use, it is the Corporation's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Equity

Deposits and Investments

Cash and cash equivalents consist of demand deposits in banks. For the purposes of the statement of cash flows, the Corporation considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Investments

Investments include the State of Florida Special Purpose Investment Account ("SPIA"). The fair value of the Corporation's position in the SPIA is the same as the value of the pooled shares. SPIA funds are combined with State funds and invested as part of the Treasury Investment Pool in various short-term liquid investments and fixed income securities. The funds can be withdrawn at any time and are reported at fair value.

Equity Ownership

The Corporation has acquired equity positions in commercial enterprises as consideration for various license agreements. The Corporation 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 Corporation records the equity on its statement of net position at fair value and recognizes related income.

Patent and related costs

Patent, license, trademark and copyright application costs are expensed as incurred.

FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION

Notes to Financial Statements

Royalties, licensing and fees

The Corporation enters into royalty and licensing agreements with third parties for the use of certain patents that expire through 2044. These agreements generally provide for sales-based royalties with specific minimum requirements and may include a patent purchase option. Additionally, the Corporation collects fees related to patent generation, divesture and investing (funding) fee. Under separate agreements with the University and the patent's inventor, a portion of the proceeds are shared with the inventor and the University.

Royalties, licensing and fee revenue are recorded when an amounts owed to the Corporation can be determined and invoiced, based on the terms of the agreement. Once the funds have been received by the Corporation, the University will invoice the Corporation on a semi-annual basis, for its share. Other amounts are also accrued and paid to the inventor.

Grants

Grants are recorded when amounts are earned by the Corporation, based on the terms of the grant. Once funds have been received, the University will invoice the Corporation for its share of grant revenue received by the Corporation.

Grants are subject to annual renewal and periodic amendment and require the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of the funds to the grantor agencies. Although that is a possibility, the Corporation deems the contingency remote.

Facilities use and personnel

Facilities and personnel are provided at no cost to the Corporation by the University.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Income taxes

The Corporation is a not-for-profit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is exempt from similar state and local taxes. Although the Corporation was granted income tax exemption by the Internal Revenue Service, such exemption does not apply to "unrelated business taxable income." Such income, pursuant to the Internal Revenue Code and related regulations, includes investment income such as interest received from sources other than directly from the membership. The Corporation has been classified as not a private foundation.

FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION

Notes to Financial Statements

2. DEPOSITS

Following is a reconciliation of deposit balances for the Corporation as of June 30, 2022:

Statement of Net Position

Cash	<u>\$ 113,620</u>
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Deposits

Checking / savings accounts	<u>\$ 113,620</u>
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Deposit Risk

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned. State law does not require and the Corporation does not have a policy for deposit custodial credit risk. As of June 30, 2022, none of the Corporation's bank balances were exposed to custodial credit risk.

3. INVESTMENTS

The Corporation is authorized to invest in the State of Florida Special Purpose Investment Account ("SPIA"). SPIA pooled investments with the State Treasury are not registered with the SEC. Oversight of the pooled investments with the State Treasury is provided by the Treasury Investment Council per Section 17.575, Florida Statutes. The authorized investment types are set forth in Section 17.57, Florida Statutes. SPIA pooled investments are recorded at fair value based on net asset value of the pool, which is consistent with the treatment of "2a-7 like" pool.

The Corporation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. 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, and Level 3 inputs are significant unobservable inputs.

All of the Corporation's recurring fair value measurements as of June 30, 2022 are valued based on the Corporation's share of the pool (Level 3 inputs).

Interest rate risk

Interest rate risk is the risk that changes in the market interest rate will adversely affect the fair value of an investment. The Corporation's investment policy does not have a provision which limits investment maturity as a mean of managing exposure to fair value losses arising from increasing interest rates. The effective duration of the Florida Treasury Investment Pool is 2.66 years at June 30, 2022.

FLORIDA ATLANTIC UNIVERSITY RESEARCH CORPORATION

Notes to Financial Statements

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As a SPIA participant, the Corporation invests in the Florida Treasury Investment Pool. The Florida Treasury Pool is rated AA-f as of June 30, 2022.

Foreign currency risk

State law and investment policy do not authorize the Treasury Investment Pool to purchase investments in foreign currencies; therefore, the Treasury Investment Pool is not exposed to foreign currency risk.

Custodial credit risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (for example, a broker-dealer) to a transaction, an entity will not be able to recover the value of its investments or collateral securities that are in the possession of another party. As applicable, the investments are held by the Corporation's custodial institution and registered in the Corporation's name. Investments in the State of Florida Special Purpose Investment funds are not subject to custodial credit risk.

4. RELATED PARTY TRANSACTIONS

The Corporation is a direct support organization for the University and transactions between the Corporation and University are varied and material. The Corporation's Board is comprised, primarily, of University representatives. The University performs certain research projects on behalf of the Corporation pursuant to separate agreements between the University and the Corporation. The Corporation also reimburses the University for legal and other costs the University incurs in patenting technologies.

5. CORONAVIRUS (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. The pandemic resulted in operational changes for the Corporation as it determined the appropriate methods to conduct its business. At this time, management does not believe that any ongoing negative financial impact related to the pandemic, if any, would be material to the Corporation.



INTERNAL CONTROL AND COMPLIANCE

**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***

October 25, 2022

Honorable members of the Board of Directors
of the Florida Atlantic University Research Corporation
Boca Raton, FL

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the **Florida Atlantic University Research Corporation** (the "Corporation"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated October 25, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 or significant deficiencies may exist that have not been identified.



Report on Compliance and Other Matters

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

Rehmann Lobson LLC