

**CLEMSON UNIVERSITY
RESEARCH FOUNDATION**

BASIC FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2022 and 2021

And Report of Independent Auditor

CLEMSON UNIVERSITY RESEARCH FOUNDATION
TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR	1-2
MANAGEMENT’S DISCUSSION AND ANALYSIS – REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)	3-8
BASIC FINANCIAL STATEMENTS	
Statements of Net Position	9
Statements of Revenues, Expenses, and Changes in Net Position.....	10
Statements of Cash Flows	11
Notes to the Financial Statements	12-20
COMPLIANCE REPORT	
Report of Independent Auditor on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21-22

Report of Independent Auditor

To the Board of Directors
Clemson University Research Foundation
Clemson, South Carolina

Opinion

We have audited the accompanying financial statements of Clemson University Research Foundation (the "Foundation"), as of and for the years ended June 30, 2022 and 2021, which collectively comprise the Foundation's basic financial statements, and related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2022 and 2021 and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 Comptroller General of the United States. Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 Foundation's ability to continue as a going concern for 12 months beyond the financial statements date, including any currently known information that may raise substantive doubt shortly thereafter.

Auditor's 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 auditor's report that includes our opinion. 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 generally accepted auditing standards 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 generally accepted auditing standards 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 Foundation'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 Foundation'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 on pages 3 through 8 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 our report dated September 15, 2022, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation'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 Foundation's internal control over financial reporting and compliance.



Greenville, South Carolina
September 15, 2022

CLEMSON UNIVERSITY RESEARCH FOUNDATION MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2022 AND 2021

Overview of the Financial Statements and Financial Analysis

Clemson University Research Foundation (the "Foundation") is pleased to present its financial information for fiscal years 2022 and 2021. The emphasis of discussions about these statements will be on current and prior year data.

The financial statement presentation for the Foundation meets the requirements of the Governmental Accounting Standards Board ("GASB") Codification Sections 2100-2900, *Financial Reporting Entity*. The financial statement presentation provides a comprehensive, entity-wide perspective of the Foundation's assets, liabilities, net position, revenues, expenses, changes in net position, and cash flows.

There are three financial statements presented: the statements of net position; the statements of revenues, expenses, and changes in net position; and the statements of cash flows. These statements present financial information in a format similar to that used by private-sector corporations. The Foundation's net position (the difference between assets and liabilities) is one indicator of the current financial condition of the Foundation, while the change in net position is an indicator of whether the overall financial condition has improved or declined during the year.

Statements of Net Position

The statements of net position present the assets, liabilities, and net position of the Foundation at the end of the fiscal year. The statements of net position are a point-of-time financial statement. The purpose of the statements of net position is to present to the readers of the financial statements a fiscal snapshot of the Foundation at June 30. The statements of net position present end of year data concerning assets (property that we own), liabilities (what we owe to others), and net position (assets minus liabilities). The statements are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service to us, regardless of when cash is exchanged.

From the data presented, readers of the statements of net position are able to determine the assets available to continue the operations of the Foundation. They are also able to determine how much the Foundation owes vendors and lending institutions. Finally, the statements of net position provide a picture of the net position (assets minus liabilities) and their availability for use by the Foundation.

Net position is classified into three categories. Net investment in capital assets provides the Foundation's equity in capital assets owned by the Foundation. Restricted-expendable net position is available for expenditure by the Foundation but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. Unrestricted net position is available to the Foundation for any lawful purpose of the Foundation.

CLEMSON UNIVERSITY RESEARCH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2022 AND 2021

Summary of Net Position as of June 30, 2022 and 2021

	<u>2022</u>	<u>Restated 2021</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
Assets:				
Current assets	\$ 8,579,094	\$ 8,370,938	\$ 208,156	2%
Noncurrent assets	479,069	570,126	(91,057)	(16%)
Capital assets, net	<u>1,002,379</u>	<u>1,082,628</u>	<u>(80,249)</u>	<u>(7%)</u>
Total Assets	<u>\$ 10,060,542</u>	<u>\$ 10,023,692</u>	<u>\$ 36,850</u>	<u>1%</u>
Liabilities:				
Current liabilities	<u>\$ 41,426</u>	<u>\$ 58,856</u>	<u>\$ (17,430)</u>	<u>(30%)</u>
Total Liabilities	<u>\$ 41,426</u>	<u>\$ 58,856</u>	<u>\$ (17,430)</u>	<u>(30%)</u>
Deferred Inflows of Resources:	<u>\$ 534,516</u>	<u>\$ 645,106</u>	<u>\$ (110,590)</u>	<u>(17%)</u>
Total Deferred Inflows of Resources	<u>\$ 534,516</u>	<u>\$ 645,106</u>	<u>\$ (110,590)</u>	<u>(17%)</u>
Net Position:				
Net investment in capital assets	\$ 1,002,379	\$ 1,082,628	\$ (80,249)	(7%)
Restricted - expendable	2,047,326	1,634,808	412,518	25%
Unrestricted	<u>6,434,895</u>	<u>6,602,294</u>	<u>(167,399)</u>	<u>3%</u>
Total Net Position	<u>\$ 9,484,600</u>	<u>\$ 9,319,730</u>	<u>\$ 164,870</u>	<u>2%</u>

Total assets increased by approximately \$37,000 due to an increase in cash, while receivables decreased as part of normal operations and capital assets decreased due to normal depreciation and amortization.

Total liabilities were reduced by approximately \$17,000 primarily due to the reduction in sponsored research activity. Deferred inflows of resources decreased by approximately \$111,000 due to ongoing contractual payments on leased IRU fiber access. The deferred inflows of resources are directly related to the lease receivables that are included within current and noncurrent assets.

Total net position increased approximately \$165,000 and represents the change in net position of the Foundation for the year ended June 30, 2022.

During the year ended June 30, 2022, the Foundation adopted GASB 87, *Leases*, which requires government lessors to recognize a lease receivable and a deferred inflow of resources, while continuing to report the leased asset in its financial statements. The adoption of this standard is required at the earliest date presented. As such, the 2021 balances presented in this Management's discussion and analysis have been restated. For additional information, refer to Notes 2 and 5 of the accompanying notes to the financial statements.

CLEMSON UNIVERSITY RESEARCH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2022 AND 2021

Summary of Net Position as of June 30, 2021 and 2020

	<u>Restated 2021</u>	<u>2020</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
Assets:				
Current assets	\$ 8,370,938	\$ 8,403,113	\$ (32,175)	(1%)
Noncurrent assets	570,126	26,496	543,630	20.52%
Capital assets, net	<u>1,082,628</u>	<u>1,193,950</u>	<u>(111,322)</u>	<u>(9%)</u>
Total Assets	<u>\$ 10,023,692</u>	<u>\$ 9,623,559</u>	<u>\$ 400,133</u>	<u>4%</u>
Liabilities:				
Current liabilities	<u>\$ 58,856</u>	<u>\$ 126,562</u>	<u>\$ (67,706)</u>	<u>(53%)</u>
Total Liabilities	<u>\$ 58,856</u>	<u>\$ 126,562</u>	<u>\$ (67,706)</u>	<u>(53%)</u>
Deferred Inflows of Resources:				
Total Deferred Inflows of Resources	<u>\$ 645,106</u>	<u>\$ 126,562</u>	<u>\$ 645,106</u>	<u>100%</u>
	<u>\$ 645,106</u>	<u>\$ -</u>	<u>\$ 645,106</u>	<u>100%</u>
Net Position:				
Net investment in capital assets	\$ 1,082,628	\$ 1,193,950	\$ (111,322)	(9%)
Restricted - expendable	1,634,808	1,509,247	125,561	8%
Unrestricted	<u>6,602,294</u>	<u>6,793,800</u>	<u>(191,506)</u>	<u>(3%)</u>
Total Net Position	<u>\$ 9,319,730</u>	<u>\$ 9,496,997</u>	<u>\$ (177,267)</u>	<u>(2%)</u>

Total assets increased by approximately \$400,000 due to the adoption of GASB 87, *Leases*, which is presented in 2021 and not 2020. The adoption impact in 2021 is an increase of approximately \$654,000 of lease receivable. Net of the adoption, total assets decreased approximately \$254,000 due to increased spending on Clemson University (the "University") programs, while receivables increased as part of normal operations and capital assets decreased due to normal depreciation and amortization.

Total liabilities were reduced by approximately \$68,000, primarily due to the reduction in sponsored research activity. Deferred inflows of resources increased by approximately \$645,000 due to the adoption of GASB 87, *Leases*.

Total net position decreased approximately \$177,000 and represents the change in net position of the Foundation for the year ended June 30, 2021.

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenues, expenses, and changes in net position present the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. Changes in total net position as presented on the statements of net position are based on the activity presented in the statements of revenues, expenses, and changes in net position. The purpose of the statements is to present the revenues received, both operating and nonoperating, and the expenses paid, operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the Foundation. The use of capital assets is reflected in the statements as depreciation, which amortizes the cost of the assets over their useful lives.

Operating revenues are earned by providing goods and services for research and technology transfer activities. Operating expenses are those expenses to conduct research and to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the Foundation. Nonoperating revenues include gifts and investment income for which goods and services are not provided.

CLEMSON UNIVERSITY RESEARCH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2022 AND 2021

Summary of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>Restated 2021</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
Revenues:				
Operating revenues:				
Grants and contracts	\$ 644,503	\$ 104,975	\$ 539,528	514%
Management fees and recoveries	96,030	73,774	22,256	30%
Royalty and license income	331,786	288,074	43,712	15%
Other operating revenues	<u>1,281,807</u>	<u>1,339,818</u>	<u>(58,011)</u>	<u>(4%)</u>
Total operating revenues	<u>2,354,126</u>	<u>1,806,641</u>	<u>547,485</u>	<u>30%</u>
Interest income	<u>6,511</u>	<u>76,948</u>	<u>(70,437)</u>	<u>(92%)</u>
Total nonoperating revenues	<u>6,511</u>	<u>76,948</u>	<u>(70,437)</u>	<u>(92%)</u>
Total revenues	<u>2,360,637</u>	<u>1,883,589</u>	<u>477,048</u>	<u>25%</u>
Expenses:				
Operating expenses:				
Services and supplies	1,513,381	1,563,770	(50,389)	(3%)
Royalties	164,177	81,045	83,132	103%
Legal and patent	437,960	312,582	125,378	40%
Amortization and depreciation	<u>80,249</u>	<u>111,322</u>	<u>(31,073)</u>	<u>(28%)</u>
Total operating expenses	<u>2,195,767</u>	<u>2,068,719</u>	<u>127,048</u>	<u>6%</u>
Total expenses	<u>2,195,767</u>	<u>2,068,719</u>	<u>127,048</u>	<u>6%</u>
Change in net position	<u>164,870</u>	<u>(185,130)</u>	<u>350,000</u>	<u>189%</u>
Net position, beginning of year	9,319,730	9,496,997	(177,267)	(2%)
Cumulative effect of change in accounting principle	<u>-</u>	<u>7,863</u>	<u>(7,863)</u>	<u>(100%)</u>
Net position, beginning of year, restated	<u>9,319,730</u>	<u>9,504,860</u>	<u>(185,130)</u>	<u>(2%)</u>
Net position, end of year	<u>\$ 9,484,600</u>	<u>\$ 9,319,730</u>	<u>\$ 164,870</u>	<u>2%</u>

Sponsored research grants and contracts revenues increased by approximately \$540,000, management fees increased by approximately \$22,000, and other operating revenues decreased by approximately \$58,000 due to the spend down of legacy sponsored research projects and the transition of the Foundations' support role to the University away from serving as a grants prime contractor toward a technology transfer and commercialization focused organization. The royalty and license income continues to be shaped by increased licensing activity to University spin-out companies, which are pre-revenue going concerns with multi-year lead times before royalties on product/service sales can be realized. Although revenue increased between the reported years, the impact of COVID-19 significantly impacted the spin-out licenses and postponed further any significant royalty realization on product/service sales coming from licensing activity.

CLEMSON UNIVERSITY RESEARCH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2022 AND 2021

Total operating expenses increased by approximately \$127,000, resulting from the funding of University projects.

The changes in revenues and expenses resulted in a increase in net position of approximately \$165,000 for the year ended June 30, 2022.

Summary of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2021 and 2020

	<u>Restated 2021</u>	<u>2020</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
Revenues:				
Operating revenues:				
Grants and contracts	\$ 104,975	\$ 130,032	\$ (25,057)	(19%)
Management fees and recoveries	73,774	70,648	3,126	4%
Royalty and license income	288,074	198,317	89,757	45%
Other operating revenues	<u>1,339,818</u>	<u>994,182</u>	<u>345,636</u>	<u>35%</u>
Total operating revenues	<u>1,806,641</u>	<u>1,393,179</u>	<u>413,462</u>	<u>30%</u>
Interest income	<u>76,948</u>	<u>161,149</u>	<u>(84,201)</u>	<u>(52%)</u>
Total nonoperating revenues	<u>76,948</u>	<u>161,149</u>	<u>(84,201)</u>	<u>(52%)</u>
Total revenues	<u>1,883,589</u>	<u>1,554,328</u>	<u>329,261</u>	<u>21%</u>
Expenses:				
Operating expenses:				
Services and supplies	1,563,770	1,108,634	455,136	41%
Royalties	81,045	67,653	13,392	20%
Legal and patent	312,582	371,714	(59,132)	(16%)
Amortization and depreciation	<u>111,322</u>	<u>142,395</u>	<u>(31,073)</u>	<u>(22%)</u>
Total operating expenses	<u>2,068,719</u>	<u>1,690,396</u>	<u>378,323</u>	<u>22%</u>
Total expenses	<u>2,068,719</u>	<u>1,690,396</u>	<u>378,323</u>	<u>22%</u>
Change in net position	<u>(185,130)</u>	<u>(136,068)</u>	<u>(49,062)</u>	<u>36%</u>
Net position, beginning of year	9,496,997	9,633,065	(136,068)	(1%)
Cumulative effect of change in accounting principle	<u>7,863</u>	<u>-</u>	<u>7,863</u>	<u>100%</u>
Net position, beginning of year, restated	<u>9,504,860</u>	<u>9,633,065</u>	<u>(128,205)</u>	<u>(1%)</u>
Net position, end of year	<u>\$ 9,319,730</u>	<u>\$ 9,496,997</u>	<u>\$ (177,267)</u>	<u>(-2%)</u>

Sponsored research grants and contracts revenues decreased by approximately \$25,000, management fees increased by approximately \$3,000, and other operating revenues increased by approximately \$345,000 due to the spend down of legacy sponsored research projects and the transition of the Foundations' support role to the University away from serving as a grants prime contractor toward a technology transfer and commercialization focused organization. The royalty and license income continues to be shaped by increased licensing activity to University spin-out companies, which are pre-revenue going concerns with multi-year lead times before royalties on product/service sales can be realized. Although revenue increased between the reported years, the impact of COVID-19 significantly impacted the spin-out licenses and postponed further any significant royalty realization on product/service sales coming from licensing activity.

CLEMSON UNIVERSITY RESEARCH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2022 AND 2021

Total operating expenses decreased by approximately \$378,000, resulting from the funding of University projects.

The changes in revenues and expenses resulted in a decrease in net position of approximately \$186,000 for the year ended June 30, 2021.

Statements of Cash Flows

The final statements presented are the statements of cash flows. The statements of cash flows present detailed information about the cash activity of the Foundation during the year by reporting the sources and uses of cash. The statements are divided into three sections. The first section deals with operating cash flows and shows the net cash from the operating activities of the Foundation. The second section deals with cash flows from capital and related financing activities and shows the net cash from the acquisition and construction of capital and related items. The third section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. A reconciliation of the net cash from operating activities to the operating income or loss reflected on the statements of revenues, expenses, and changes in net position is also included in the statements of cash flows. For the years ended June 30, 2022 and 2021, the Foundation only had cash flow activity on the statements of cash flows from operating and investing activity.

Capital Assets

At the end of 2022, 2021, and 2020, the Foundation had \$1,002,379, \$1,082,628, and \$1,193,950, respectively, invested in capital assets. Depreciation and amortization charges of \$80,249 and \$111,322 in 2022 and 2021, respectively, were included in the change in capital assets.

Capital assets at year-end (net of depreciation):

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Land	\$ 513,901	\$ 513,901	\$ 513,901
Buildings and improvements	85,199	104,132	123,065
Indefeasible rights of use	403,279	464,595	556,984
Total	<u>\$ 1,002,379</u>	<u>\$ 1,082,628</u>	<u>\$ 1,193,950</u>

Request for Information

The information in this report is provided as an overview of the Foundation's finances. Questions concerning any of the information in this report or requests for additional information should be directed to the office of Chris Gesswein, Executive Director, Clemson University Research Foundation, P.O. Box 946, Clemson, South Carolina 29633-0946.

CLEMSON UNIVERSITY RESEARCH FOUNDATION
STATEMENTS OF NET POSITION

JUNE 30, 2022 AND 2021

	2022	2021
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 6,261,664	\$ 6,242,201
Restricted cash and cash equivalents	2,037,284	1,433,308
Receivables, net	82,560	414,458
Lease receivable, current	111,057	110,327
Prepaid expenses and deposits	86,529	170,644
Total Current Assets	<u>8,579,094</u>	<u>8,370,938</u>
Noncurrent Assets:		
Lease receivable, net of current portion	432,573	543,630
Capital assets, not being depreciated	513,901	513,901
Capital assets, net of depreciation and amortization	488,478	568,727
Other assets	46,496	26,496
Total Noncurrent Assets	<u>1,481,448</u>	<u>1,652,754</u>
Total Assets	<u>\$ 10,060,542</u>	<u>\$ 10,023,692</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 41,426	\$ 41,856
Unearned revenue	-	17,000
Total Current Liabilities	<u>41,426</u>	<u>58,856</u>
Total Liabilities	<u>\$ 41,426</u>	<u>\$ 58,856</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from leases	<u>\$ 534,516</u>	<u>\$ 645,106</u>
Total Deferred Inflows of Resources	<u>\$ 534,516</u>	<u>\$ 645,106</u>
NET POSITION		
Net investment in capital assets	\$ 1,002,379	\$ 1,082,628
Restricted for expendable:		
Research	2,047,326	1,634,808
Unrestricted	<u>6,434,895</u>	<u>6,602,294</u>
Total Net Position	<u>\$ 9,484,600</u>	<u>\$ 9,319,730</u>

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

CLEMSON UNIVERSITY RESEARCH FOUNDATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
Operating Revenues:		
Nongovernmental grants and contracts	\$ 644,503	\$ 104,975
Management fees and recoveries	96,030	73,774
Royalty and license income	331,786	288,074
Other operating revenues	1,281,807	1,339,818
Total Operating Revenues	<u>2,354,126</u>	<u>1,806,641</u>
Operating Expenses:		
Services and supplies	1,513,381	1,563,770
Royalties	164,177	81,045
Legal and patent	437,960	312,582
Amortization and depreciation	80,249	111,322
Total Operating Expenses	<u>2,195,767</u>	<u>2,068,719</u>
Operating Income (Loss)	<u>158,359</u>	<u>(262,078)</u>
Nonoperating Revenues:		
Interest income	6,511	76,948
Net Nonoperating Revenues	<u>6,511</u>	<u>76,948</u>
Change in Net Position	<u>164,870</u>	<u>(185,130)</u>
Net position, at the beginning of year	9,319,730	9,496,997
Cumulative effect of change in accounting principle	-	7,863
Net position, beginning of year, restated	<u>9,319,730</u>	<u>9,504,860</u>
Net position, end of the year	<u>\$ 9,484,600</u>	<u>\$ 9,319,730</u>

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

CLEMSON UNIVERSITY RESEARCH FOUNDATION
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
Cash flows from operating activities:		
Payments from customers	\$ 821,471	\$ 850,177
Payments from related parties	443,074	490,654
Payments from patents and royalty licenses	331,786	288,074
Payments from grants and contracts	1,072,431	(49,469)
Payments to subcontractors	(782,959)	(837,777)
Payments to suppliers	(1,248,875)	(1,211,517)
Net cash flow from operating activities	<u>636,928</u>	<u>(469,858)</u>
Cash flows from investing activities:		
Investment in preferred stock	(20,000)	-
Interest income	6,511	76,948
Net cash flows from investing activities	<u>(13,489)</u>	<u>76,948</u>
Net change in cash and cash equivalents	623,439	(392,910)
Cash, restricted cash and cash equivalents, beginning of year	7,675,509	8,068,419
Cash, restricted cash, and cash equivalents, end of year	<u>\$ 8,298,948</u>	<u>\$ 7,675,509</u>
Reconciliation of cash balances to the statements of net position:		
Cash and cash equivalents	\$ 6,261,664	\$ 6,242,201
Restricted cash and cash equivalents	2,037,284	1,433,308
Cash, restricted cash, and cash equivalents, end of year	<u>\$ 8,298,948</u>	<u>\$ 7,675,509</u>
Reconciliation of operating income (loss) to net cash flows from operating activities:		
Operating income (loss)	\$ 158,359	\$ (262,078)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:		
Amortization	61,316	92,389
Depreciation	18,933	18,933
Changes in operating assets and liabilities:		
Receivables, net	331,898	(228,217)
Lease receivable	110,327	109,600
Prepaid expenses and deposits	84,115	(22,191)
Accounts payable and accrued expenses	(430)	(69,706)
Unearned revenue	(17,000)	2,000
Deferred inflows from leases	(110,590)	(110,588)
Net cash flows from operating activities	<u>\$ 636,928</u>	<u>\$ (469,858)</u>

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

CLEMSON UNIVERSITY RESEARCH FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 1—Organization

The Clemson University Research Foundation (the “Foundation” or “CURF”) is an independent, nonprofit, tax-exempt public entity incorporated in South Carolina.

The financial statement presentation for the Foundation meets the requirements of the Governmental Accounting Standards Board (“GASB”) Codification Sections 2100-2900, *Financial Reporting Entity*. The financial statement presentation provides a comprehensive, entity-wide perspective of the Foundation’s assets, liabilities, net position, revenues, expenses, changes in net position, and cash flows.

The Foundation is directed by a Board of Directors, comprising up to 20 members with a majority of the voting members chosen from outside Clemson University (the “University”).

Blended Component Unit – Effective January 1, 2010, the Foundation acquired all the membership interest in Clemson University Light Rail, LLC (“CULR”) from the Clemson University Foundation. CULR is a wholly-owned, member-managed subsidiary of the Foundation and is included in the financial statements of the Foundation. The associated revenues, expenses, assets, liabilities, and net position have been blended with those of the Foundation and all associated inter-entity activity has been eliminated. CULR provides access for the University, its related organizations, and other state of South Carolina entities to national research and education networks using scalable, high-speed facilities based networks.

Note 2—Summary of significant accounting policies

The significant accounting policies used by the Foundation in preparing and presenting its financial statements are as follows:

Basis of Accounting – The financial statements of the Foundation have been prepared using the economic resources measurement focus and the accrual basis of accounting.

Cash and Cash Equivalents – The Foundation considers all cash investments with original maturities of three months or less to be cash equivalents.

At June 30, 2022 and 2021, the carrying value of cash deposits totaled \$8,298,948 and \$7,675,509, respectively, with corresponding bank balances of \$8,291,145 and \$7,739,159, respectively. The Foundation places its cash and cash equivalents on deposit with financial institutions in the United States. The Foundation participates in an Insured Cash Sweep Deposit Placement Agreement (the “Agreement”), which allows access to multi-million dollar Federal Deposit Insurance Corporation (“FDIC”) protection. This type of account diversifies the balance between several banking institutions protected by the FDIC with coverage of \$250,000 for substantially all depository accounts at each banking institution. At both June 30, 2022 and 2021, the Foundation invested approximately \$7,000,000 of the total cash and cash equivalents in certificates of deposit through the Agreement, which are fully insured by the FDIC. As of June 30, 2022 and 2021, the Foundation had \$503,039 and \$30,217, respectively, in excess of these insured amounts.

CLEMSON UNIVERSITY RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 2—Summary of significant accounting policies (continued)

Receivables – Receivables consist primarily of amounts due from private sources in connection patent and royalty fees due to the Foundation. Receivables are shown net of an allowance for uncollectible accounts.

Capital Assets – Capital assets are recorded at cost on the date of acquisition or acquisition value at the date of donation in the case of gifts. Equipment with a value in excess of \$5,000 and a useful life in excess of one year is capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 years for buildings and 5 years for equipment. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the asset, generally 10 years.

Intangible assets, which are reported in capital assets, net of depreciation and amortization on the statements of net position, are recorded at cost at the date of acquisition and consist of indefeasible rights of use (“IRU”). An IRU represents the exclusive right to use a specified amount of fiber capacity for a period of time and which is amortized over the length of the term of the use agreement.

Unearned Revenue – Unearned revenue includes amounts received from grant and contract sponsors that have not yet been earned. Unearned revenue also includes rental income received prior to the end of the fiscal year but related to a subsequent reporting period.

Net Position – The Foundation’s net position is classified as follows:

Net Investment in Capital Assets – This represents the Foundation’s total investment in capital and intangible assets, net of outstanding debt obligations related to those assets.

Restricted Net Position – Restricted net position includes resources in which the Foundation is legally or contractually obligated to spend such resources in accordance with restrictions imposed by external third parties.

Unrestricted Net Position – This represents net position that is not included within net investment in capital assets and is not subject to externally imposed stipulations pertaining to their use. Unrestricted net position is used for the general operations of the Foundation and may be used at the discretion of the governing board to meet current expenses for any purpose.

The Foundation’s policy for applying expenses that can use both restricted and unrestricted resources is delegated to Foundation management. General practice is to first apply the expense to restricted resources then to unrestricted resources.

Classification of Revenues and Expenses – The Foundation has classified its revenues and expenses as either operating or nonoperating revenues and expenses according to the following criteria:

Operating Revenues and Expenses – Operating revenues and expenses include activities that have the characteristics of exchange transactions, such as royalty income, rental income, and management fees. Revenues under federal and nongovernmental grants and contracts are recognized as expenses are incurred for the grant and contract purposes.

Nonoperating Revenues and Expenses – Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts, interest income, and expense.

Income Taxes – The Foundation is recognized as an organization exempt from income tax on related income under Section 501(a) of the Internal Revenue Code (the “IRC”) and described as an organization in Section 501(c)(3) of the IRC; accordingly, only unrelated business income, as defined by Section 513 of the IRC, is subject to federal income tax.

CLEMSON UNIVERSITY RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 2—Summary of significant accounting policies (continued)

The Foundation’s policy is to record a liability for any tax position taken that is beneficial to the Foundation, including any related interest and penalties, when it is more likely than not the position taken by management with respect to a transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions as of June 30, 2022 or 2021 and, accordingly, no liability has been accrued.

Use of Estimates – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Foundation to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Change in Accounting Principle – During fiscal year 2022, the Foundation adopted GASB 87, *Leases*. GASB 87 requires governmental lessors to recognize a lease receivable and a deferred inflow of resources and continue to report the leased asset in its financial statements. GASB 87 also requires the governmental unit to report in its financial statements lease revenue recognized over the term of the lease, interest income on the receivable, and note disclosures about the respective lease. The cumulative effect of adoption of the standard is presented as an adjustment to beginning fiscal year 2021 net position, as this is the earliest period presented. See Note 5 for further detail.

As of July 1, 2020, the deferred inflows of resources, net lease receivable and net position have been adjusted as follows due to the implementation of this standard:

	Lease Receivable	Deferred Inflows of Resources	Net Position
Beginning balance, July 1, 2020	\$ -	\$ -	\$ -
Change in accounting principle	763,557	(755,694)	7,863
Adjusted balance, July 1, 2020	<u>\$ 763,557</u>	<u>\$ (755,694)</u>	<u>\$ 7,863</u>

Note 3—Restricted assets and restricted net position

At June 30, 2022 and 2021, restricted cash and cash equivalents of \$2,037,284 and \$1,433,308, respectively, and restricted net receivables of \$10,042 and \$201,500, respectively, are restricted because of the sponsored research program origination of these assets.

CLEMSON UNIVERSITY RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 4—Receivables, net

The Foundation's receivables reported in the statement of net position as of June 30, 2022 were as follows:

	<u>Private</u>	<u>Federal</u>	<u>Total</u>
Other receivables	\$ 82,560	\$ -	\$ 82,560
Allowances for uncollectible receivables	-	-	-
Total receivables, net	<u>\$ 82,560</u>	<u>\$ -</u>	<u>\$ 82,560</u>

The Foundation's receivables reported in the statement of net position as of June 30, 2021 were as follows:

	<u>Private</u>	<u>Federal</u>	<u>Total</u>
Other receivables	\$ 414,458	\$ -	\$ 414,458
Allowances for uncollectible receivables	-	-	-
Total receivables, net	<u>\$ 414,458</u>	<u>\$ -</u>	<u>\$ 414,458</u>

Note 5—Lease receivables

The Foundation through its subsidiary CULR, provides access to its IRU fiber network to a third party which qualifies for lease accounting under GASB 87, *Leases*. The lease agreement requires monthly principal and interest payments of \$9,525 from May 2017 to April 2027.

Future lease principal and related interest payments are as follows at June 30, 2022:

<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 111,057	\$ 3,252	\$ 114,309
2024	111,792	2,517	114,309
2025	112,532	1,777	114,309
2026	113,277	1,032	114,309
2027	94,972	288	95,260
	<u>\$ 543,630</u>	<u>\$ 8,866</u>	<u>\$ 552,496</u>

CLEMSON UNIVERSITY RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 6—Capital assets

Capital asset activity for the year ended June 30, 2022 was as follows:

	Ending Balance June 30, 2021	Increases	Decreases	Ending Balance June 30, 2022
Capital assets not being depreciated:				
Land	\$ 513,901	\$ -	\$ -	\$ 513,901
Depreciable capital assets:				
Buildings and improvements	2,079,064	-	-	2,079,064
Total depreciable capital assets at historical cost	2,079,064	-	-	2,079,064
Less accumulated depreciation for:				
Buildings and improvements	1,974,932	18,933	-	1,993,865
Total accumulated depreciation	1,974,932	18,933	-	1,993,865
Depreciable capital assets, net	104,132	18,933	-	85,199
Intangible assets:				
Indefeasible rights of use				
20-year life	1,226,321			1,226,321
10-year life	621,459			621,459
5-year life	127,077	-	-	127,077
Total intangible assets	1,974,857	-	-	1,974,857
Less accumulated amortization for:				
Indefeasible rights of use	1,510,262	61,316	-	1,571,578
Total accumulated amortization	1,510,262	61,316	-	1,571,578
Intangible assets, net	464,595	61,316	-	403,279
Capital assets, net	<u>\$ 1,082,628</u>	<u>\$ 80,249</u>	<u>\$ -</u>	<u>\$ 1,002,379</u>

CLEMSON UNIVERSITY RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 6—Capital assets (continued)

Capital asset activity for the year ended June 30, 2021 was as follows:

	Ending Balance June 30, 2020	Increases	Decreases	Ending Balance June 30, 2021
Capital assets not being depreciated:				
Land	\$ 513,901	\$ -	\$ -	\$ 513,901
Depreciable capital assets:				
Buildings and improvements	2,079,064	-	-	2,079,064
Total depreciable capital assets at historical cost	2,079,064	-	-	2,079,064
Less accumulated depreciation for:				
Buildings and improvements	1,955,999	18,933	-	1,974,932
Total accumulated depreciation	1,955,999	18,933	-	1,974,932
Depreciable capital assets, net	123,065	18,933	-	104,132
Intangible assets:				
Indefeasible rights of use				
20-year life	1,226,321	-	-	1,226,321
10-year life	621,459	-	-	621,459
5-year life	127,077	-	-	127,077
Total intangible assets	1,974,857	-	-	1,974,857
Less accumulated amortization for:				
Indefeasible rights of use	1,417,873	92,389	-	1,510,262
Total accumulated amortization	1,417,873	92,389	-	1,510,262
Intangible assets, net	556,984	92,389	-	464,595
Capital assets, net	<u>\$ 1,193,950</u>	<u>\$ 111,322</u>	<u>\$ -</u>	<u>\$ 1,082,628</u>

CULR entered various IRU agreements for the exclusive use of fiber capacity for terms of 5, 10, and 20 years. Under the terms of the agreements, payments of \$1,974,857 were made at inception and the cost of the agreements are amortized over the terms of the respective IRU agreements, as presented in the table above. Depreciation and amortization expense for the years ended June 30, 2022 and 2021 was \$80,249 and \$111,322, respectively.

CLEMSON UNIVERSITY RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 7—Accounts payable and accrued expenses

The Foundation accounts payables and accrued expenses reported in the statement of net position as of June 30, 2022 were as follows:

	<u>Private</u>	<u>Federal</u>	<u>Total</u>
Vendors	\$ 41,426	\$ -	\$ 41,426
Total accounts payable and accrued expenses	<u>\$ 41,426</u>	<u>\$ -</u>	<u>\$ 41,426</u>

The Foundation accounts payables and accrued expenses reported in the statement of net position as of June 30, 2021 were as follows:

	<u>Private</u>	<u>Federal</u>	<u>Total</u>
Vendors	\$ 41,856	\$ -	\$ 41,856
Total accounts payable and accrued expenses	<u>\$ 41,856</u>	<u>\$ -</u>	<u>\$ 41,856</u>

Note 8—Related party

The Foundation performs as prime contractor on certain Research Grants and Contracts for the University as described in a CU-CURF Operating Agreement dated April 11, 2011, and amended and restated July 1, 2013. As a grant or contract is received, a performance agreement is executed between the Foundation and the University. The University will perform the research and development and will receive payment for all direct costs incurred in accordance with the terms of the subcontracts.

The amended and restated operating agreement between the University and the CURF, effective July 1, 2013, designates CURF to serve as the University’s agent to negotiate licenses for intellectual property owned by the University. During the years ended June 30, 2022 and 2021, CURF received royalty and license income from these activities totaling \$331,786 and \$288,074, respectively. Also, during the years ended June 30, 2022 and 2021, royalties were distributed to individuals and the University totaling \$164,177 and \$81,045, respectively. Finally, during the years ended June 30, 2022 and 2021, legal fees related to patent expenses and license agreements totaled \$425,969 and \$290,947, respectively.

CURF provides the University access to its IRU fiber network. The total revenue received during the years ended June 30, 2022 and 2021 was \$75,000 and is included in other operating revenues (see Note 10) on the statements of revenues, expenses, and change in net position.

CLEMSON UNIVERSITY RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 9—Commitments and contingencies

The Foundation receives a number of federal awards which are subject to financial and compliance audits. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under the terms of the agreement. The amount of expenditures, if any, which may be disallowed by the granting agencies cannot be determined at this time although the Foundation expects such amounts, if any, to be immaterial.

Note 10—Operating expenses by function

Operating expenses by functional classification for the year ended June 30, 2022 are summarized as follows:

	Services and Supplies	Royalties	Legal and Patent	Amortization and Depreciation	Total
Sponsored research and development	\$ 756,974	\$ -	\$ 3,383	\$ -	\$ 760,357
Intellectual property management, protection, and licensing (technology transfer)	130,495	164,177	430,380	-	725,052
CULR lease management and accessibility	536,814	-	-	61,316	598,130
Management and general	89,098	-	4,197	18,933	112,228
Total	<u>\$ 1,513,381</u>	<u>\$ 164,177</u>	<u>\$ 437,960</u>	<u>\$ 80,249</u>	<u>\$ 2,195,767</u>

Operating expenses by functional classification for the year ended June 30, 2021 are summarized as follows:

	Services and Supplies	Royalties	Legal and Patent	Amortization and Depreciation	Total
Sponsored research and development	\$ 971,353	\$ -	\$ 8,188	\$ -	\$ 979,541
Intellectual property management, protection, and licensing (technology transfer)	118,650	81,045	298,299	-	497,994
CULR lease management and accessibility	402,838	-	-	92,389	495,227
Management and general	70,929	-	6,095	18,933	95,957
Total	<u>\$ 1,563,770</u>	<u>\$ 81,045</u>	<u>\$ 312,582</u>	<u>\$ 111,322</u>	<u>\$ 2,068,719</u>

CLEMSON UNIVERSITY RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 11—Other operating revenues

Other operating revenues consist of continuing education fees, IRU fiber access fees, tenant utilities and maintenance fees, and corporate memberships received by various centers and boards to sponsor research, the results of which are shared with all of the members and program and activities revenues related to research and education. Other operating revenues for the years ended June 30, 2022 and 2021 are summarized as follows:

	<u>2022</u>	<u>2021</u>
Other operating revenues:		
Membership fees	\$ 4,000	\$ -
Maintenance fees	138,691	82,709
Program and activities revenues	473,074	540,421
IRU fiber access fees	511,982	511,980
IRU lease interest revenue	3,983	4,708
Private gifts	150,077	200,000
Total	<u>\$ 1,281,807</u>	<u>\$ 1,339,818</u>

Note 12—Risk management

The Foundation is exposed to various risks of loss related to torts, theft of assets, and errors and omissions. The Foundation's affairs are conducted by the employees of the University and exposures to loss resulting from this arrangement are handled by the University through a combination of methods, including participation in various risk pools administered by the state of South Carolina, purchase of commercial insurance, and self-retention of certain risks. Additional details on the University's risk management program are disclosed in the financial report of the University.

Report of Independent Auditor 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*

To the Board of Directors
Clemson University Research Foundation
Clemson, South Carolina

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 Clemson University Research Foundation (the "Foundation"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated September 15, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation'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 Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Greenville, South Carolina
September 15, 2022