

**UNIVERSITY OF FLORIDA  
DEVELOPMENT CORPORATION**

**FINANCIAL STATEMENTS**

**JUNE 30, 2018 AND 2017**

**UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION**  
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**JUNE 30, 2018 AND 2017**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors,  
University of Florida Development Corporation:

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

We have audited the accompanying financial statements of the University of Florida Development Corporation, a component unit of the University of Florida, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the University of Florida Development Corporation's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

University of Florida Development Corporation's is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Florida Development Corporation as of June 30, 2018 and 2017, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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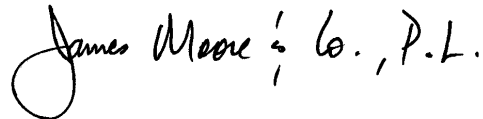
***Other Matter***

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2018 on our consideration of the University of Florida Development 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 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 University of Florida Development Corporation's internal control over financial reporting and compliance.

James Moore & Co., P.L.

Gainesville, Florida  
September 21, 2018

**UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018 AND 2017**

**Introduction**

Management's Discussion and Analysis (MD&A) provides a financial performance review that is designed to focus on the financial activities, resulting changes, and currently known facts for the fiscal years ended on June 30, 2018, 2017 and 2016, of the University of Florida Development Corporation (UFDC) and blended component unit Innovation Square, LLC, herein referred to as the "Organization." The MD&A should be read in conjunction with the accompanying presented financial statements.

**Overview of the Financial Statements and Financial Analysis**

The financial section of this report consists of three parts: MD&A (this section), the financial statements, and notes to the financial statements.

The Organization's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as applied to an enterprise fund using an accrual basis of accounting. Under this basis, revenues are recognized in the period in which they are earned, and expenses are recognized in the period in which they are incurred.

Included in the financial statements are the statements of net position, the statements of revenues, expenses and changes in net position, the statements of cash flows, and the related notes.

**Financial Analysis of the Organization**

**Statements of Net Position**

The statements of net position reflect the assets and liabilities of the Organization, using the accrual basis of accounting, and present the financial position of the Organization at a specified time. Assets less liabilities equal net position, which is one indicator of the Organization's current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the Organization's financial condition.

The following schedule summarizes the Organization's statements of net position as of June 30, 2018, 2017 and 2016:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Assets</b>			
Current assets	\$ 2,344,986	\$ 2,769,775	\$ 1,674,303
Capital assets, net	10,119,991	10,284,757	10,716,890
Total assets	<u>\$ 12,464,977</u>	<u>\$ 13,054,532</u>	<u>\$ 12,391,193</u>
<b>Liabilities</b>			
Current liabilities	\$ 297,834	\$ 265,150	\$ 380,414
Noncurrent liabilities	-	-	-
Total liabilities	<u>\$ 297,834</u>	<u>\$ 265,150</u>	<u>\$ 380,414</u>
<b>Net Position</b>			
Net investment in capital assets	\$ 10,119,991	\$ 10,284,757	\$ 10,716,890
Unrestricted	2,047,151	2,504,625	1,293,889
Total net position	<u>\$ 12,167,142</u>	<u>\$ 12,789,382</u>	<u>\$ 12,010,779</u>

**UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2018 AND 2017**  
(Continued)

**Capital Assets**

At June 30, 2018, 2017 and 2016, respectively, the Organization had \$13,509,759, \$13,027,939, and \$12,796,638 in capital assets, less accumulated depreciation of \$3,389,767, \$2,743,182, and \$2,079,748 for net capital assets of \$10,119,991, \$10,284,757, and \$10,716,890. Depreciation charges for the fiscal years ended June 30, 2018, 2017 and 2016, totaled \$646,585, \$663,435, and \$634,331, respectively.

Please refer to the notes to financial statements for additional explanation.

**Statements of Revenues, Expenses, and Changes in Net Position**

The statements of revenues, expenses, and changes in net position present the Organization's revenue and expense activity, categorized as operating, and nonoperating. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid. The Organization functions as a single enterprise fund. The primary source of operating revenues was from rental income, which accounted for 100% of operating revenues in fiscal years 2018 and 2017 and 98.91% of operating revenues in fiscal year 2016. The increase in operating expenses in 2018 was mainly due to increased professional fees and property taxes, due to several properties losing their tax-exempt status. The decrease in nonoperating revenues in 2018 is due to the sale of three land parcels located close to downtown Gainesville that occurred in 2017.

The following summarizes the Organization's activity for the fiscal years ended June 30, 2018, 2017 and 2016:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 1,616,749	\$ 1,455,599	\$ 1,310,033
Operating expenses	<u>(2,238,989)</u>	<u>(2,021,996)</u>	<u>(2,164,427)</u>
Operating loss	(622,240)	(566,397)	(854,394)
Nonoperating revenues	-	1,345,000	-
Net other revenues	-	-	-
Increase (decrease) in net position	<u>\$ (555,163)</u>	<u>\$ 778,603</u>	<u>\$ (854,394)</u>

**Statements of Cash Flows**

The statements of cash flows provide information about the Organization's financial results by reporting the major sources and uses of cash. This information will assist in evaluating the Organization's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash provided by (used in) the operating activities of the Organization. Cash flows from capital and related financing activities include cash provided by and cash used in the acquisition of capital assets.

**UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2018 AND 2017**  
(Continued)

The following summarizes the Organization's cash flows for the fiscal years ended June 30, 2018, 2017 and 2016:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Cash flows from:			
Operating activities	\$ 45,521	\$ (51,257)	\$ 161,666
Capital and related financing activities	(481,818)	1,113,698	(518,976)
Net increase (decrease) in cash and cash equivalents	(436,297)	1,062,441	(357,310)
Cash and cash equivalents, beginning of year	2,690,330	1,627,889	1,985,199
Cash and cash equivalents, end of year	<u>\$ 2,254,033</u>	<u>\$ 2,690,330</u>	<u>\$ 1,627,889</u>

**Economic Outlook**

Innovation Square, a 25-acre development that bridges the main University of Florida (University) campus and downtown Gainesville, FL, will incorporate retail, commercial, residential, and office space, and is planned as a "new urbanist" development to appeal to the growing cadre of citizens who desire an in town experience for work and residence. This urban neighborhood will also accommodate spin-off companies primarily from University research and serve as a home for companies recruited to Gainesville nationally and internationally.

The outlook for this development is positive, with interest by developers and companies hoping to locate near the University. Innovation Square has attracted a number of new companies and, along with its community stakeholders, continues to recruit nationwide. Roads, utility infrastructure, and a park have been completed and will enable further development to proceed more smoothly. The steady recovery of the economy from the recession will aid in the ongoing development of the project. Job growth, one of the primary drivers of new development of both non-student residential and commercial buildings, has been notoriously missing since the recession, which has slowed the overall development of the area. As the employment market recovers, development is expected to accelerate in Innovation Square. The lack of viable commercial alternatives in the in-town area will make Innovation Square, with development ready parcels, the most attractive alternative.

**Contacting the Organization's Financial Management**

If you have any questions about this report or need additional information, contact the Organization's management at:

University of Florida Development Corporation  
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Suite 108  
Gainesville, FL 32601

**UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b><u>ASSETS</u></b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,254,033	\$ 2,690,330
Accounts receivable	87,962	79,445
Prepaid items and other assets	2,991	-
Total current assets	2,344,986	2,769,775
<b>Noncurrent assets</b>		
Capital assets not being depreciated:		
Land	2,320,284	2,229,146
Construction in progress	110,914	32,500
Capital assets, net of accumulated depreciation:		
Land improvements	10,222	10,670
Buildings and improvements	7,663,803	7,992,142
Movable equipment	14,767	20,299
Total noncurrent assets	10,119,990	10,284,757
Total assets	\$ 12,464,976	\$ 13,054,532
<b><u>LIABILITIES</u></b>		
<b>Current liabilities</b>		
Accounts payable	\$ 73,144	\$ 94,383
Accrued property taxes	185,640	127,121
Unearned rental revenue	37,562	43,646
Tenant deposits payable	1,488	-
Total liabilities	\$ 297,834	\$ 265,150
<b><u>NET POSITION</u></b>		
<b>Net position</b>		
Net investment in capital assets	\$ 10,119,990	\$ 10,284,757
Unrestricted	2,047,152	2,504,625
Total net position	\$ 12,167,142	\$ 12,789,382

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



**UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION**  
**STATEMENTS OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>Operating revenues</b>		
Rent	\$ 1,616,749	\$ 1,455,599
Total operating revenues	1,616,749	1,455,599
<b>Operating expenses</b>		
Professional fees and other services	446,518	421,586
Utilities	381,305	378,433
Repairs and maintenance	186,522	29,990
Memberships and dues	225,542	200,064
Property taxes	306,268	257,525
Insurance	9,056	15,147
Depreciation	646,585	663,435
Travel	140	27
Supplies	10,464	10,150
Other operating expenses	26,589	45,639
Total operating expenses	2,238,989	2,021,996
<b>Operating loss</b>	(622,240)	(566,397)
<b>Nonoperating revenues</b>		
Gain on sale/disposal of capital assets	-	1,345,000
<b>Increase (decrease) in net position</b>	(622,240)	778,603
<b>Net position, beginning of year</b>	12,789,382	12,010,779
<b>Net position, end of year</b>	\$ 12,167,142	\$ 12,789,382

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

**UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>		
Rent receipts	\$ 1,603,636	\$ 1,404,917
Cash paid to vendors for goods and services	(1,558,115)	(1,456,174)
Net cash provided by (used in) operating activities	45,521	(51,257)
<b>Cash flows from capital and related financing activities</b>		
Proceeds from sale of capital assets	-	1,345,000
Purchase or construction of capital assets	(481,818)	(231,302)
Net cash provided by (used in) capital and related financing activities	(481,818)	1,113,698
<b>Net increase (decrease) in cash and cash equivalents</b>	(436,297)	1,062,441
<b>Cash and cash equivalents, beginning of year</b>	2,690,330	1,627,889
<b>Cash and cash equivalents, end of year</b>	\$ 2,254,033	\$ 2,690,330
<b>Reconciliation of operating loss to net cash provided by (used in) operating activities</b>		
Operating loss	\$ (622,240)	\$ (566,397)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	646,585	663,435
Changes in assets and liabilities:		
Due from property manager	-	5,806
Accounts receivable	(8,517)	(38,837)
Accounts payable	(21,239)	(81,520)
Prepaid assets and other expenses	(2,991)	-
Accrued property taxes	58,519	(16,093)
Unearned rental revenue	(6,084)	(11,551)
Tenant deposits payable	1,488	(6,100)
Net cash provided by (used in) operating activities	\$ 45,521	\$ (51,257)
<b>Supplemental disclosure of noncash capital and related financing activities</b>		
The following items are recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statements of cash flows:		
Gain on sale/disposal of capital assets	\$ -	\$ 1,345,000

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

**UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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

The following is a summary of the more significant accounting policies of the University of Florida Development Corporation (UFDC) and its blended component unit, Innovation Square, LLC, herein collectively referred to as the “Organization,” which affect the accompanying financial statements.

The Organization is a discretely presented component unit of the University of Florida (the “University”) and is to be included in the University’s Annual Financial Report (AFR).

(a) **Reporting entity**—UFDC is a not-for-profit entity organized March 28, 2011, for the purpose of promoting the educational mission and purposes of the University and promoting, managing, assisting, and developing research in the sciences, technology, business, architecture, agriculture, engineering, and any other fields that further such mission and educational purposes and promote economic development. UFDC is a direct-support organization of the University as defined by Section 1004.28, Florida Statutes.

On August 13, 2012, Shands Teaching Hospital and Clinics, Inc. (“Shands”) formed Innovation Square, LLC, a manager-managed, limited liability company for charitable, educational, and scientific purposes and exclusively to further the charitable purposes of its members, UFDC and Shands. On October 18, 2012, UFDC made a contribution of cash to the capital of Innovation Square. Shands has an 77.3% ownership and UFDC has a 22.7% ownership of Innovation Square. The members of Innovation Square, LLC’s governing board are identical to those of UFDC’s governing board, and UFDC is the managing member and vested with operational responsibility of Innovation Square, LLC. Innovation Square, LLC is a blended component unit of UFDC.

The Organization is reported as a special-purpose entity engaged in business-type activities.

(b) **Measurement focus, basis of accounting, and financial statement presentation**—The financial statements of the Organization have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under these methods, revenues are recorded when earned and expenses are recognized when they are incurred.

The Organization distinguishes operating revenues and expenses from nonoperating and other items. Operating revenues are those revenues that are generated from the primary operations of the Organization. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the Organization. All other expenses are reported as nonoperating expenses.

The Organization follows GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, which establishes financial reporting standards for state and local governments, including states, cities, towns, villages, and special-purpose governments such as school districts and public utilities and GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, an amendment to GASB Statement No. 34 for public colleges and universities to allow the use of the guidance for special-purpose governments engaged only in business-type activities, engaged only in governmental activities, or engaged in both governmental and business-type activities in their separately issued reports.

Transactions between UFDC and Innovation Square, LLC have been eliminated from the accompanying financial statements.

**UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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

(c) **Cash and cash equivalents**—The Organization considers all short-term, highly liquid investments that are readily convertible to known amounts of cash with an original maturity of three months or less at the date of acquisition to be cash equivalents.

(d) **Capital assets**—Capital assets are stated at cost. Costs of \$2,000 or more are capitalized, and expenditures for repairs and maintenance are expensed in the period incurred. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The useful lives of these assets range from 5 to 25 years. When items of equipment and other property are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in income. Capital assets donated are reported at fair value at the time of the donation; however, capital assets donated by related organizations are recorded based on the net book value of these assets in the accounting records of the related organization on the date of donation.

(e) **Income taxes**—UFDC is a not-for-profit corporation established under the laws of the State of Florida and is generally exempt from income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes has been made in the accompanying financial statements. Innovation Square, LLC, is a Florida limited liability corporation. While Innovation Square, LLC is not a tax-exempt entity, it carries out its business activities in a manner consistent with the charitable, education and scientific purposes of its members, both of which are not-for-profit corporations organized under Chapter 617, Florida Statutes, and are exempt or have applied to be exempt from federal taxation. Therefore, no provision for income taxes has been made in the accompanying financial statements.

UFDC and Innovation Square, LLC file tax returns in the U.S. federal jurisdiction. UFDC and Innovation Square, LLC have reviewed and evaluated the relevant technical merits of each of their tax positions in accordance with accounting principles generally accepted in the United States of America for accounting for uncertainty in income taxes, and determined that there are no uncertain tax positions that would have a material impact on the financial statements of UFDC and Innovation Square, LLC. The Organization's income tax returns for the past three years are subject to examination by tax authorities, and may change upon examination.

(f) **Use of estimates**—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(g) **Accounts receivable**—Accounts receivable, which represent unpaid rent and amounts due for reimbursement of construction costs, are stated at the amount management expects to collect from outstanding balances. No amounts due at June 30, 2018 or 2017 are considered to be uncollectible.

(h) **Revenue recognition**—The Organization recognizes revenue in the period in which revenue is earned.

**UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

(2) **Cash and Cash Equivalents:**

At June 30, 2018 and 2017, aggregate bank balances were \$2,488,863 and \$2,858,106, respectively. Deposits are maintained with commercial banks which are organized under the laws of the United States and are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for all accounts at each financial institution.

(a) **Custodial credit risk**—Custodial credit risk represents the potential loss of the Organization’s deposits in the event of a bank failure. At June 30, 2018 and 2017, the Organization had bank balances in the amount of \$1,987,285 and \$2,358,106, respectively, which exceeded FDIC insurance and were not collateralized. The Organization does not have a policy for custodial credit risk.

(3) **Capital Assets:**

Capital assets consist of the following at June 30, 2018:

	<b>Balance July 1, 2017</b>	<b>Additions</b>	<b>Reclass</b>	<b>Deletions</b>	<b>Balance June 30, 2018</b>
Capital assets not being depreciated					
Land	\$ 2,229,146	\$ 91,138	\$ -	\$ -	\$ 2,320,284
Construction in progress	32,500	110,914	(32,500)	-	110,914
Total capital assets not being depreciated	<u>2,261,646</u>	<u>202,052</u>	<u>(32,500)</u>	<u>-</u>	<u>2,431,198</u>
Capital assets being depreciated					
Land improvements	12,170	-	-	-	12,170
Buildings and improvements	10,727,515	279,766	32,500	-	11,039,781
Movable equipment	26,609	-	-	-	26,609
Total capital assets being depreciated	<u>10,766,294</u>	<u>279,766</u>	<u>32,500</u>	<u>-</u>	<u>11,078,560</u>
Less: Accumulated depreciation					
Land improvements	1,499	449	-	-	1,948
Buildings and improvements	2,735,373	640,605	-	-	3,375,978
Movable equipment	6,311	5,531	-	-	11,842
Total accumulated depreciation	<u>2,743,183</u>	<u>646,584</u>	<u>-</u>	<u>-</u>	<u>3,389,768</u>
Total capital assets being depreciated, net	<u>8,023,111</u>	<u>(366,819)</u>	<u>32,500</u>	<u>-</u>	<u>7,688,792</u>
Total capital assets, net	<u>\$ 10,284,757</u>	<u>\$ (164,765)</u>	<u>\$ 32,500</u>	<u>\$ -</u>	<u>\$ 10,119,990</u>

**UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

(3) **Capital Assets:** (Continued)

Capital assets consist of the following at June 30, 2017:

	<b>Balance July 1, 2016</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2017</b>
Capital assets not being depreciated				
Land	\$ 2,229,146	\$ -	\$ -	\$ 2,229,146
Construction in progress	96,492	32,500	96,492	32,500
Total capital assets not being depreciated	<u>2,325,638</u>	<u>32,500</u>	<u>96,492</u>	<u>2,261,646</u>
Capital assets being depreciated				
Land improvements	12,170	-	-	12,170
Buildings and improvements	10,432,221	295,294	-	10,727,515
Movable equipment	26,609	-	-	26,609
Total capital assets being depreciated	<u>10,471,000</u>	<u>295,294</u>	<u>-</u>	<u>10,766,294</u>
Less: Accumulated depreciation				
Land improvements	1,014	485	-	1,499
Buildings and improvements	2,074,419	660,954	-	2,735,373
Movable equipment	4,315	1,996	-	6,311
Total accumulated depreciation	<u>2,079,748</u>	<u>663,435</u>	<u>-</u>	<u>2,743,183</u>
Total capital assets being depreciated, net	<u>8,391,252</u>	<u>(368,141)</u>	<u>-</u>	<u>8,023,111</u>
Total capital assets, net	<u>\$ 10,716,890</u>	<u>\$ (335,641)</u>	<u>\$ 96,492</u>	<u>\$ 10,284,757</u>

Depreciation expense for the years ended June 30, 2018 and 2017, was \$646,585 and \$663,435, respectively.

(4) **Related Party Transactions:**

Neither UFDC nor Innovation Square, LLC has employees, but in prior years, the Organization paid for services rendered by employees of UF and Shands. During the fiscal years ended June 30, 2018 and 2017, no amount was incurred for services provided by employees of UF or Shands.

Shands, component units and several departments within the University lease space in buildings owned by Innovation Square, LLC. Rent earned pursuant to leases between Shands and Innovation Square, LLC in fiscal years ended June 30, 2018 and 2017, totaled \$761,796 and \$652,706, respectively.

The Organization purchased postage, office supplies, web hosting services, printing services, and ID cards from the University during fiscal years ended June 30, 2018 and 2017 at a cost of \$9,442 and \$25,433, respectively.

The table below summarizes the related party activity for fiscal years ended June 30, 2018 and 2017.

	<b>2018</b>		<b>2017</b>	
	<b>Shands</b>	<b>University</b>	<b>Shands</b>	<b>University</b>
Revenue	\$ 761,796	\$ -	\$ 652,706	\$ -
Expenses	-	9,442	-	25,433

**UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION**  
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**JUNE 30, 2018 AND 2017**

(4) **Related Party Transactions:** (Continued)

UFDC in agreement with Shands allocates all losses of the operations of Innovation Square in accordance with their respective ownership percentage. Profits are then allocated in restoration of prior loss allocations. Upon restoration, all remaining profits shall be allocated 50% each between the UFDC and Shands. To date, no profits in excess of accumulated losses have been recognized by Innovation Square

(5) **Construction Commitments:**

As of June 30, 2018, there were outstanding commitments for renovations to the South Tower of the 720 SW 2<sup>nd</sup> Ave. building. The remaining cost of the renovations is anticipated to be approximately \$49,000, to be funded by Innovation Square, LLC. In addition, an extension of 9<sup>th</sup> Avenue has a remaining cost of \$62,000.

(6) **Risk Management:**

The Organization purchased conventional commercial insurance coverage for potential exposures in the areas of property and general liability. This insurance was purchased from commercial insurers and is designed to insure against such risks and minimize the Organization's financial exposure.

(7) **Blended Component Unit:**

Condensed component unit information for Innovation Square, LLC, UFDC blended component unit, as of and for the year ended June 30, 2018, is as follows:

**Condensed Statement of Net Position**

	<b>Innovation Square, LLC</b>	<b>UFDC</b>	<b>Eliminations</b>	<b>Total Organization</b>
Assets				
Current assets	\$ 2,344,986	\$ 2,500,000	\$ (2,500,000)	\$ 2,344,986
Capital assets, net	10,119,990	-	-	10,119,990
Total assets	<u>\$ 12,464,976</u>	<u>\$ 2,500,000</u>	<u>\$ (2,500,000)</u>	<u>\$ 12,464,976</u>
Liabilities				
Current liabilities	<u>\$ 297,834</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 297,834</u>
Net position				
Net investment in capital assets	\$ 10,119,990	\$ -	\$ -	\$ 10,119,990
Unrestricted	<u>2,047,152</u>	<u>2,500,000</u>	<u>(2,500,000)</u>	<u>2,047,152</u>
Total net position	<u>\$ 12,167,142</u>	<u>\$ 2,500,000</u>	<u>\$ (2,500,000)</u>	<u>\$ 12,167,142</u>

**UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
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(7) **Blended Component Unit:** (Continued)

**Condensed Statement of Revenues, Expenses, and Changes in Net Position**

	<b>Innovation Square, LLC</b>	<b>UFDC</b>	<b>Eliminations</b>	<b>Total Organization</b>
Operating revenues	\$ 1,616,749	\$ -	\$ -	\$ 1,616,749
Depreciation expense	(646,585)	-	-	(646,585)
Other operating expense	(1,592,404)	-	-	(1,592,404)
Operating loss	(622,240)	-	-	(622,240)
Net other revenues, expenses, gains, or losses	-	-	-	-
Decrease in net position	(622,240)	-	-	(622,240)
Net position, beginning of year	12,789,382	2,500,000	(2,500,000)	12,789,382
Net position, end of year	<u>\$ 12,167,142</u>	<u>\$ 2,500,000</u>	<u>\$ (2,500,000)</u>	<u>\$ 12,167,142</u>

**Condensed Statement of Cash Flows**

	<b>Innovation Square, LLC</b>	<b>UFDC</b>	<b>Eliminations</b>	<b>Total Organization</b>
Net cash provided by (used in):				
Operating activities	\$ 45,521	\$ -	\$ -	\$ 45,521
Capital and related financing activities	(481,818)	-	-	(481,818)
Net decrease in cash and cash equivalents	(436,297)	-	-	(436,297)
Cash and cash equivalents, beginning of year	2,690,330	-	-	2,690,330
Cash and cash equivalents, end of year	<u>\$ 2,254,033</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,254,033</u>



**UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION**  
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(7) **Blended Component Unit:** (Continued)

Condensed component unit information for Innovation Square, LLC, UFDC blended component unit, as of and for the year ended June 30, 2017, is as follows:

**Condensed Statement of Net Position**

	<b>Innovation Square, LLC</b>	<b>UFDC</b>	<b>Eliminations</b>	<b>Total Organization</b>
<b>Assets</b>				
Current assets	\$ 2,769,775	\$ 2,500,000	\$ (2,500,000)	\$ 2,769,775
Capital assets, net	10,284,757	-	-	10,284,757
Total assets	<u>\$ 13,054,532</u>	<u>\$ 2,500,000</u>	<u>\$ (2,500,000)</u>	<u>\$ 13,054,532</u>
<b>Liabilities</b>				
Current liabilities	\$ 265,150	\$ -	\$ -	\$ 265,150
<b>Net position</b>				
Net investment in capital assets	\$ 10,284,757	\$ -	\$ -	\$ 10,284,757
Unrestricted	2,504,625	2,500,000	(2,500,000)	2,504,625
Total net position	<u>\$ 12,789,382</u>	<u>\$ 2,500,000</u>	<u>\$ (2,500,000)</u>	<u>\$ 12,789,382</u>

**Condensed Statement of Revenues, Expenses, and Changes in Net Position**

	<b>Innovation Square, LLC</b>	<b>UFDC</b>	<b>Eliminations</b>	<b>Total Organization</b>
Operating revenues	\$ 1,455,599	\$ -	\$ -	\$ 1,455,599
Depreciation expense	(663,435)	-	-	(663,435)
Other operating expense	(1,358,561)	-	-	(1,358,561)
Operating loss	(566,397)	-	-	(566,397)
Net other revenues, expenses, gains, or losses	1,345,000	-	-	1,345,000
Increase in net position	778,603	-	-	778,603
Net position, beginning of year	12,010,779	2,500,000	(2,500,000)	12,010,779
Net position, end of year	<u>\$ 12,789,382</u>	<u>\$ 2,500,000</u>	<u>\$ (2,500,000)</u>	<u>\$ 12,789,382</u>

**UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

(7) **Blended Component Unit:** (Continued)

**Condensed Statement of Cash Flows**

	<b>Innovation Square, LLC</b>	<b>UFDC</b>	<b>Eliminations</b>	<b>Total Organization</b>
Net cash provided by (used in):				
Operating activities	\$ (51,257)	\$ -	\$ -	\$ (51,257)
Capital and related financing activities	1,113,698	-	-	1,113,698
Net increase in cash and cash equivalents	1,062,441	-	-	1,062,441
Cash and cash equivalents, beginning of year	1,627,889	-	-	1,627,889
Cash and cash equivalents, end of year	<u>\$ 2,690,330</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,690,330</u>

(8) **Condominium Association:**

Innovation Square, LLC is an ownership member of the Clarence T. Ayers Medical Plaza Condominium Association, Inc. (Association) located at 720 SW 2nd Avenue, Gainesville, FL. The Association is for the North Tower only of the Clarence T. Ayers Medical Plaza Building (Building) and associated parking lots near the Building. Innovation Square, LLC owns approximately 83% of the property comprising the Association and is in the process of acquiring other units within the Building.

(9) **Operating Leases:**

The Organization leases certain real properties to various tenants. At June 30, 2018, the Organization had non-cancellable operating leases with 20 commercial tenants. Future minimum rentals on non-cancellable leases are as follows:

<b>Fiscal Year Ending June 30</b>	<b>Amount</b>
2019	\$ 1,473,848
2020	1,082,624
2021	907,261
2022	915,170
2023	727,587
Thereafter	<u>532,788</u>
Total future minimum rentals	<u>\$ 5,639,278</u>

(10) **Subsequent Events:**

As of June 30, 2018, Innovation Square, LLC received notice from the Alachua County that all properties that previously were tax exempt no longer have tax exempt status for the upcoming payment of property taxes in November 2018. Losing tax exempt status will result in an increase of approximately \$120,000 in property tax disbursement in November of 2018.

**UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
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(11) **Recently Issued Accounting Pronouncements:**

GASB issued Statement No. 87, Leases, in June 2017. GASB 87 aims to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The provisions in GASB 87 are effective for periods beginning after December 15, 2019. The Organization is currently evaluating the impact this statement will have on its financial statements.

GASB issued Statement No. 89, Interest Cost in Construction, in June 2018. GASB 89 was made to enhance the comparability of information about capital assets and the cost of borrowing for a reported period, and aims to simplify accounting for interest cost incurred before the end of a construction period. The provisions in GASB 89 are effective for periods beginning after December 15, 2019. The Organization is currently evaluating the impact this statement will have on its financial statements.

**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**

To the Board of Directors,  
University of Florida Development Corporation:

We have audited 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, the financial statements of University of Florida Development Corporation (UFDC) which comprise the statements of net position as of June 30, 2018 and 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the years ended and the related notes to the financial statements and have issued our report thereon dated September 21, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered UFDC'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 UFDC's internal control. Accordingly, we do not express an opinion on the effectiveness of UFDC'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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.

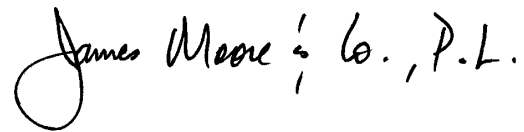
**Compliance and Other Matters**

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

determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, 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 UFDC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering UFDC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "James Moore & Co., P.L.". The signature is written in a cursive style with a large, looped initial "J".

Gainesville, Florida  
September 21, 2018