

Financial Statements
and Other Reports

University of Florida Development Corporation

*Years ended June 30, 2021 and 2020
with Report of Independent Auditors*



University of Florida Development Corporation

Financial Statements
and Other Reports

Years ended June 30, 2021 and 2020

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Report of Independent Auditors

Board of Directors
University of Florida Development Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of University of Florida Development Corporation (the Organization), a component unit of the University of Florida which comprise the statement of net position as of June 30, 2021, the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of Florida Development Corporation, a component unit of the University of Florida, as of June 30, 2021, and the related changes in net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year Financial Statements

The financial statements of University of Florida Development Corporation, a component unit of the University of Florida, as of and for the year ended June 30, 2020, were audited by other auditors whose report dated October 2, 2020, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2021 on our consideration of the Organization'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 Organization'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 Organization's internal control over financial reporting and compliance.

Thomas Howell Ferguson P.A.

Tallahassee, Florida
November 1, 2021

UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021 and 2020

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, 2021, 2020 and 2019, 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, 2021, 2020 and 2019:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Assets			
Current assets	\$ 2,962,822	\$ 2,680,613	\$ 2,367,865
Capital assets, net	8,980,288	9,131,773	9,688,400
Total assets	<u>\$ 11,943,110</u>	<u>\$ 11,812,386</u>	<u>\$ 12,056,265</u>
Liabilities			
Current liabilities	\$ 498,145	\$ 289,897	\$ 285,816
Noncurrent liabilities	4,864,829	4,662,708	4,444,000
Total liabilities	<u>\$ 5,362,974</u>	<u>\$ 4,952,605</u>	<u>\$ 4,729,816</u>
Net Position			
Net investment in capital assets	\$ 4,115,459	\$ 4,469,065	\$ 5,244,400
Unrestricted	2,464,677	2,390,716	2,082,049
Total net position	<u>\$ 6,580,136</u>	<u>\$ 6,859,781</u>	<u>\$ 7,326,449</u>

UNIVERSITY OF FLORIDA DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021 AND 2020
(Continued)

Capital Assets

At June 30, 2021, 2020 and 2019, respectively, the Organization had \$14,523,147, \$13,944,767, and \$13,782,283 in capital assets, less accumulated depreciation of \$5,542,859, \$4,812,994, and \$4,093,883 for net capital assets of \$8,980,288, \$9,131,773, and \$9,688,400. Depreciation charges for the fiscal years ended June 30, 2021, 2020 and 2019, totaled \$729,865, \$719,111, and \$704,115, 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 99% of operating revenues in fiscal years 2021 and 100% of operating revenues in fiscal years 2020 and 2019. The increase in operating revenues was due to an increase in the number of tenants leasing space for the entire fiscal year. The operating expenses remained steady from fiscal year 2020 to fiscal year 2021.

The following summarizes the Organization's activity for the fiscal years ended June 30, 2021, 2020 and 2019:

	2021	2020	2019
Operating revenues	\$1,922,102	\$1,745,078	\$ 1,888,946
Operating expenses	(1,999,626)	(1,993,038)	(2,285,639)
Operating loss	(77,524)	(247,960)	(396,693)
Nonoperating revenues (losses)	(202,121)	(218,708)	(4,444,000)
Increase (decrease) in net position	\$ (279,645)	\$ (466,668)	\$ (4,840,693)

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.

The following summarizes the Organization’s cash flows for the fiscal years ended June 30, 2021, 2020 and 2019:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Cash flows from:			
Operating activities	\$ 598,653	\$ 465,027	\$ 372,851
Capital and related financing activities	(578,379)	(162,484)	(272,525)
Net increase (decrease) in cash and cash equivalents	<u>20,274</u>	<u>302,543</u>	<u>100,326</u>
Cash and cash equivalents, beginning of year	2,656,902	2,354,359	2,254,033
Cash and cash equivalents, end of year	<u><u>\$ 2,677,176</u></u>	<u><u>\$ 2,656,902</u></u>	<u><u>\$ 2,354,359</u></u>

Economic Outlook

The Innovation District (formally 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 long-term outlook for this development remains positive, with steady and growing interest from developers and companies interested in locations close to the University and downtown Gainesville. Short term, however, remains unclear as the COVID-19 pandemic continues and directly impacts the way we live and work. Though we are seeing an increase in economic activity, the effect of the pandemic continues to financially impact many businesses. Long term trends will likely emerge that could have an impact on commercial real estate and dense residential projects. More employees working from home, for example, will likely impact the demand for office space and office layouts. However, Gainesville and Alachua County may be positively impacted from the increased desire to relocate out of major cities into less densely populated areas. As the pandemic subsides and the economy recovers, the Innovation District is poised to capture increased development activity due to its location, available pad ready sites and existing utility infrastructure.

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
720 SW 2nd Avenue
Suite 108
Gainesville, FL 32601

University of Florida Development Corporation

Statements of Net Position

	June 30,	
	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,677,176	\$ 2,656,902
Accounts receivable	45,532	23,711
Due from related party	141,968	-
Funds held by the University	85,930	-
Prepaid expenses	<u>12,216</u>	<u>-</u>
Total current assets	2,962,822	2,680,613
Noncurrent assets:		
Capital assets not being depreciated:		
Land	2,320,284	2,320,284
Construction in progress	374,042	20,424
Capital assets, net of accumulated depreciation:		
Land improvements	105,840	110,372
Buildings and improvements	6,180,122	6,676,569
Moveable equipment	<u>-</u>	<u>4,124</u>
Total noncurrent assets	<u>8,980,288</u>	<u>9,131,773</u>
Total assets	<u><u>\$ 11,943,110</u></u>	<u><u>\$ 11,812,386</u></u>
Liabilities and net position		
Current liabilities:		
Accounts payable	\$ 263,715	\$ 77,982
Accrued property taxes	146,902	138,347
Unearned rental revenue	75,161	59,875
Tenant deposits payable	12,367	13,585
Due to related party	<u>-</u>	<u>108</u>
Total current liabilities	\$ 498,145	\$ 289,897
Note payable to Shands	<u>4,864,829</u>	<u>4,662,708</u>
Total liabilities	<u><u>\$ 5,362,974</u></u>	<u><u>\$ 4,952,605</u></u>
Net position		
Net investment in capital assets	4,115,459	4,469,065
Unrestricted	<u>2,464,677</u>	<u>2,390,716</u>
Total net position	<u><u>6,580,136</u></u>	<u><u>6,859,781</u></u>
Total liabilities and net position	<u><u>\$ 11,943,110</u></u>	<u><u>\$ 11,812,386</u></u>

See accompanying notes.

University of Florida Development Corporation

Statements of Revenues, Expenses, and Changes in Net Position

	Years ended June 30,	
	<u>2021</u>	<u>2020</u>
Operating revenues:		
Rent	\$ 1,912,408	\$ 1,741,677
Other	<u>9,694</u>	<u>3,401</u>
Total operating revenue	<u>1,922,102</u>	<u>1,745,078</u>
Operating expenses:		
Professional fees and other services	334,452	311,113
Utilities	238,182	289,825
Repairs and maintenance	128,558	188,511
Memberships and dues	183,923	182,667
Property taxes	351,423	270,106
Insurance	1,805	22,748
Depreciation	729,865	719,111
Salaries	14,070	-
Other operating expenses	<u>17,348</u>	<u>8,957</u>
Total operating expenses	<u>1,999,626</u>	<u>1,993,038</u>
Operating loss	(77,524)	(247,960)
Non-operating expenses:		
Interest expense	<u>202,121</u>	<u>218,708</u>
Decrease in net position	(279,645)	(466,668)
Net position, beginning of year	<u>6,859,781</u>	<u>7,326,449</u>
Net position, end of year	<u>\$ 6,580,136</u>	<u>\$ 6,859,781</u>

See accompanying notes.

University of Florida Development Corporation

Statements of Cash Flows

	Years ended June 30,	
	2021	2020
Cash flows from operating activities		
Rent receipts	\$ 1,904,655	\$ 1,741,583
Other receipts	9,694	3,401
Cash paid to vendors for goods and services	<u>(1,315,695)</u>	<u>(1,279,957)</u>
Net cash provided by operating activities	<u>598,654</u>	<u>465,027</u>
Cash flows from capital financing activities		
Purchase or construction of capital assets	<u>(578,380)</u>	<u>(162,484)</u>
Net cash used in capital and related financing activities	<u>(578,380)</u>	<u>(162,484)</u>
Net increase in cash and cash equivalents	20,274	302,543
Cash and cash equivalents at beginning of year	<u>2,656,902</u>	<u>2,354,359</u>
Cash and cash equivalents at end of year	<u>\$ 2,677,176</u>	<u>\$ 2,656,902</u>
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (77,524)	\$ (247,960)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	729,865	719,111
Changes in operating assets and liabilities:		
Accounts receivable	(21,821)	(10,205)
Accounts payable	185,733	(20,743)
Due to related party	(108)	108
Funds held by University	(85,930)	-
Due from related party	(141,968)	-
Prepaid assets and other expenses	(12,216)	-
Accrued property taxes	8,555	14,605
Unearned rental revenue	15,286	8,881
Tenant deposits payable	<u>(1,218)</u>	<u>1,230</u>
Net cash provided by operating activities	<u>\$ 598,654</u>	<u>\$ 465,027</u>

See accompanying notes.

University of Florida Development Corporation

Notes to Financial Statements

Years ended June 30, 2021 and 2020

1. Summary of Significant Accounting Policies

Reporting Entity

University of Florida Development Corporation (UFDC) is a not-for-profit entity organized March 28, 2011, for the purpose of promoting the educational mission and purposes of the University of Florida (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 had a 77.3% ownership and UFDC had 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. On December 11, 2018, UFDC purchased from Shands its ownership interest to obtain 100% ownership of Innovation Square. Transactions between UFDC and Innovation Square, LLC have been eliminated from the accompanying financial statements.

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

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

Basis of Accounting

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.

University of Florida Development Corporation

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Basis of Accounting (continued)

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 government 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.

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.

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.

University of Florida Development Corporation

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

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 member, which is a not-for-profit corporation organized under Chapter 617, Florida Statutes, and is 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.

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, 2021 or 2020 are considered to be uncollectible.

Revenue Recognition

The Organization recognizes revenue in the period in which revenue is earned.

Unearned revenue

Current unearned revenues arise from receipt of rental income prior to the period earned. The unearned revenues are recognized as revenue in the period in which revenue is earned.

University of Florida Development Corporation

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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 revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Subsequent Events

The Organization has evaluated subsequent events through November 1, 2021, the date the financial statements were available to be issued. During the period from June 30, 2021 to November 1, 2021, the Organization did not have any material recognizable subsequent events.

2. Cash and Cash Equivalents

At June 30, 2021 and 2020, aggregate bank balances were \$2,677,176 and \$2,656,902, 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.

University of Florida Development Corporation

Notes to Financial Statements

3. Capital Assets

Capital assets consist of the following at June 30, 2021:

	Balance June 1, 2020	Additions	Reclass	Deletions	Balance June 30, 2021
Capital assets not being depreciated					
Land	\$ 2,320,284	\$ -	\$ -	\$ -	\$ 2,320,284
Construction in progress	<u>20,424</u>	<u>360,552</u>	<u>(6,934)</u>	<u>-</u>	<u>374,042</u>
Total capital assets not being depreciated	<u>2,340,708</u>	<u>360,552</u>	<u>(6,934)</u>	<u>-</u>	<u>2,694,326</u>
Capital assets being depreciated					
Land improvements	113,293	-	-	-	113,293
Building and improvements	11,464,157	217,828	6,934	-	11,688,919
Moveable equipment	<u>26,609</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,609</u>
Total capital assets being depreciated	<u>11,604,059</u>	<u>217,828</u>	<u>6,934</u>	<u>-</u>	<u>11,828,821</u>
Less: accumulated depreciation					
Land improvements	(2,921)	(4,532)	-	-	(7,453)
Buildings and improvements	(4,787,588)	(721,209)	-	-	(5,508,797)
Moveable equipment	<u>(22,485)</u>	<u>(4,124)</u>	<u>-</u>	<u>-</u>	<u>(26,609)</u>
Total accumulated depreciation	<u>(4,812,994)</u>	<u>(729,865)</u>	<u>-</u>	<u>-</u>	<u>(5,542,859)</u>
Total capital assets being depreciated, net	<u>6,791,065</u>	<u>(512,037)</u>	<u>6,934</u>	<u>-</u>	<u>6,285,962</u>
Total capital assets, net	<u>\$ 9,131,773</u>	<u>\$ (151,485)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,980,288</u>

University of Florida Development Corporation

Notes to Financial Statements

3. Capital Assets (continued)

Capital assets consist of the following at June 30, 2020:

	Balance June 1, 2019	Additions	Reclass	Deletions	Balance June 30, 2020
Capital assets not being depreciated					
Land	\$ 2,320,284	\$ -	\$ -	\$ -	\$ 2,320,284
Construction in progress	<u>101,123</u>	<u>20,424</u>	<u>(101,123)</u>	<u>-</u>	<u>20,424</u>
Total capital assets not being depreciated	<u>2,421,407</u>	<u>20,424</u>	<u>(101,123)</u>	<u>-</u>	<u>2,340,708</u>
Capital assets being depreciated					
Land improvements	12,170	-	101,123	-	113,293
Building and improvements	11,322,097	142,060	-	-	11,464,157
Moveable equipment	<u>26,609</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,609</u>
Total capital assets being depreciated	<u>11,360,876</u>	<u>142,060</u>	<u>101,123</u>	<u>-</u>	<u>11,604,059</u>
Less: accumulated depreciation					
Land improvements	(2,435)	(486)	-	-	(2,921)
Buildings and improvements	(4,074,285)	(713,303)	-	-	(4,787,588)
Moveable equipment	<u>(17,163)</u>	<u>(5,322)</u>	<u>-</u>	<u>-</u>	<u>(22,485)</u>
Total accumulated depreciation	<u>(4,093,883)</u>	<u>(719,111)</u>	<u>-</u>	<u>-</u>	<u>(4,812,994)</u>
Total capital assets being depreciated, net	<u>7,266,993</u>	<u>(577,051)</u>	<u>101,123</u>	<u>-</u>	<u>6,791,065</u>
Total capital assets, net	<u>\$ 9,688,400</u>	<u>\$ (556,627)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,131,773</u>

4. Notes Payable

The Organization issued a note payable to buyout the remaining interest that Shands held in Innovation Square, LLC on December 11, 2018. At June 30, 2021 and 2020, there is debt outstanding totaling \$4,864,829 and \$4,662,708, respectively. The Organization incurred \$202,121 and \$218,708 of interest expense during fiscal years ending June 30, 2021 and 2020, respectively, which was added to the note payable principal. Principal amounts will only be due and payable on an annual basis if the Organization meets the net cash balance threshold as determined by the agreement. Any remaining unpaid balance is due on June 30, 2039. There were no principal amounts due at June 30, 2021 and 2020, respectively.

University of Florida Development Corporation

Notes to Financial Statements

5. Related Party Transactions

Neither UFDC nor Innovation Square, LLC has employees. During the fiscal years ended June 30, 2021 and 2020, \$14,070 and \$0 was incurred for services provided by employees of the University or Shands.

Shands, other component units, and several departments within the University lease space in buildings owned by Innovation Square, LLC. Rent earned pursuant to leases with Shands and the University in fiscal years ended June 30, 2021 and 2020, totaled \$1,092,983 and \$819,971, respectively.

The Organization purchased postage, office supplies, web hosting services, printing services, and ID cards from the University during fiscal years ended June 30, 2021 and 2020 at a cost of \$0 and \$618, respectively.

The table below summarizes the related party activity for fiscal years ended June 30, 2021 and 2020.

	<u>2021</u>		<u>2020</u>	
	<u>Shands</u>	<u>University</u>	<u>Shands</u>	<u>University</u>
Revenue	\$ 284,418	\$ 808,565	\$ 291,581	\$ 528,390
Expenses	-	-	-	618

6. Construction Commitments

As of June 30, 2021, UFDC has started to renovate the roof of the 720 SW 2nd Ave. building. Costs incurred are currently presented as construction in progress on the statement of net position. UFDC estimates the cost to renovate the roof to be approximately \$1,700,000.

7. 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.

University of Florida Development Corporation

Notes to Financial Statements

8. Blended Component Unit

Condensed component unit information for Innovation Square, LLC, UFDC, blended component unit, as of and for the year ended June 30, 2021, is as follows:

Condensed Statement of Net Position

	<u>Innovation Square, LLC</u>	<u>UFDC</u>	<u>Eliminations</u>	<u>Total Organization</u>
Assets				
Current assets	\$ 2,962,822	\$ 7,329,506	\$ (7,329,506)	\$ 2,962,822
Capital assets, net	<u>8,980,288</u>	<u>-</u>	<u>-</u>	<u>8,980,288</u>
Total assets	<u>\$ 11,943,110</u>	<u>\$ 7,329,506</u>	<u>\$ (7,329,506)</u>	<u>\$ 11,943,110</u>
Liabilities				
Current liabilities	\$ 498,145	\$ -	\$ -	\$ 498,145
Noncurrent liabilities	<u>-</u>	<u>4,864,829</u>	<u>-</u>	<u>4,864,829</u>
Total liabilities	<u>\$ 498,145</u>	<u>\$ 4,864,829</u>	<u>\$ -</u>	<u>\$ 5,362,974</u>
Net position				
Net investment in capital assets	\$ 8,980,288	\$ -	\$ (4,864,829)	\$ 4,115,459
Unrestricted	<u>2,464,677</u>	<u>2,464,677</u>	<u>(2,464,677)</u>	<u>2,464,677</u>
Total net position	<u>\$ 11,444,965</u>	<u>\$ 2,464,677</u>	<u>\$ (7,329,506)</u>	<u>\$ 6,580,136</u>

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

	<u>Innovation Square, LLC</u>	<u>UFDC</u>	<u>Eliminations</u>	<u>Total Organization</u>
Operating revenues	\$ 1,922,102	\$ -	\$ -	\$ 1,922,102
Depreciation expense	(729,865)	-	-	(729,865)
Other operating expense	<u>(1,269,761)</u>	<u>-</u>	<u>-</u>	<u>(1,269,761)</u>
Operating loss	(77,524)	-	-	(77,524)
Non-operating expense	<u>-</u>	<u>(202,121)</u>	<u>-</u>	<u>(202,121)</u>
Decrease in position	(77,524)	(202,121)	-	(279,645)
Net position, beginning of year	<u>11,522,489</u>	<u>2,281,292</u>	<u>(6,944,000)</u>	<u>6,859,781</u>
Net position, end of year	<u>\$ 11,444,965</u>	<u>\$ 2,079,171</u>	<u>\$ (6,944,000)</u>	<u>\$ 6,580,136</u>

University of Florida Development Corporation

Notes to Financial Statements

8. Blended Component Unit (continued)

Condensed Statement of Cash Flows

	<u>Innovation Square, LLC</u>	<u>UFDC</u>	<u>Eliminations</u>	<u>Total Organization</u>
Net cash provided by (used in):				
Operating activities	\$ 598,654	\$ -	\$ -	\$ 598,654
Capital and related financing activities	<u>(578,380)</u>	<u>-</u>	<u>-</u>	<u>(578,380)</u>
Net increase in cash and cash equivalents	20,274	-	-	20,274
Cash and cash equivalents, beginning of year	<u>2,656,902</u>	<u>-</u>	<u>-</u>	<u>2,656,902</u>
Cash and cash equivalents, end of year	<u>\$ 2,677,176</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,677,176</u>

Condensed component unit information for Innovation Square, LLC, UFDC blended component unit, as of and for the year ended June 30, 2020, is as follows:

Condensed Statement of Net Position

	<u>Innovation Square, LLC</u>	<u>UFDC</u>	<u>Eliminations</u>	<u>Total Organization</u>
Assets				
Current assets	\$ 2,680,613	\$ 6,944,000	\$ (6,944,000)	\$ 2,680,613
Capital assets, net	<u>9,131,773</u>	<u>-</u>	<u>-</u>	<u>9,131,773</u>
Total assets	<u>\$ 11,812,386</u>	<u>\$ 6,944,000</u>	<u>\$ (6,944,000)</u>	<u>\$ 11,812,386</u>
Liabilities				
Current liabilities	\$ 289,789	\$ -	\$ -	\$ 289,897
Noncurrent liabilities	<u>-</u>	<u>4,662,708</u>	<u>-</u>	<u>4,662,708</u>
Total liabilities	<u>\$ 289,789</u>	<u>\$ 4,662,708</u>	<u>\$ -</u>	<u>\$ 4,952,605</u>
Net position				
Net investment in capital assets	\$ 9,131,773	\$ -	\$ (4,662,708)	\$ 4,469,065
Unrestricted	<u>2,390,824</u>	<u>2,281,292</u>	<u>(2,281,292)</u>	<u>2,390,716</u>
Total net position	<u>\$ 11,522,597</u>	<u>\$ 2,281,292</u>	<u>\$ (6,944,000)</u>	<u>\$ 6,859,781</u>

University of Florida Development Corporation

Notes to Financial Statements

8. Blended Component Unit (continued)

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

	<u>Innovation Square, LLC</u>	<u>UFDC</u>	<u>Eliminations</u>	<u>Total Organization</u>
Operating revenues	\$ 1,745,078	\$ -	\$ -	\$ 1,745,078
Depreciation expense	(719,111)	-	-	(719,111)
Other operating expense	<u>(1,273,927)</u>	<u>-</u>	<u>-</u>	<u>(1,273,927)</u>
Operating loss	(247,960)	-	-	(247,960)
Nonoperating expense	<u>-</u>	<u>(218,708)</u>	<u>-</u>	<u>(218,708)</u>
Decrease in net position	(247,960)	(218,708)	-	(466,668)
Net position, beginning of year	<u>11,770,449</u>	<u>2,500,000</u>	<u>(6,944,000)</u>	<u>7,326,449</u>
Net position, end of year	<u>\$ 11,522,489</u>	<u>\$ 2,281,292</u>	<u>\$ (6,944,000)</u>	<u>\$ 6,859,781</u>

Condensed Statement of Cash Flows

	<u>Innovation Square, LLC</u>	<u>UFDC</u>	<u>Eliminations</u>	<u>Total Organization</u>
Net cash provided by (used in):				
Operating activities	\$ 465,027	\$ -	\$ -	\$ 465,027
Capital and related financing activities	<u>(162,484)</u>	<u>-</u>	<u>-</u>	<u>(162,484)</u>
Net increase in cash and cash equivalents	302,543	-	-	302,543
Cash and cash equivalents, beginning of year	<u>2,354,359</u>	<u>-</u>	<u>-</u>	<u>2,354,359</u>
Cash and cash equivalents, end of year	<u>\$ 2,656,902</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,656,902</u>

9. 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 85% of the property comprising the Association and is in the process of acquiring other units within the Building.

University of Florida Development Corporation

Notes to Financial Statements

10. Operating Leases

The Organization acts as the lessor of certain real properties to various tenants. At June 30, 2021, the Organization had non-cancellable operating leases with 20 commercial tenants. Future minimum rentals to be received on non-cancellable leases are as follows:

2022	\$ 1,663,876
2023	1,299,410
2024	933,848
2025	341,282
2026	\$ <u>99,947</u>
	<u><u>4,338,363</u></u>

11. Contingencies

As of June 30, 2021, UFDC received a favorable ruling with Alachua County on certain units being qualified for tax-exempt status. UFDC estimates a property tax refund of approximately \$133,000 as a result of the favorable ruling.

Other Reports

**Report of Independent Auditors on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Trustees
University of Florida Development Corporation

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 University of Florida Development Corporation (the Organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of revenues, expenses, and changes in net position and cash flows for the year ended, and the related notes to the financial statements, and have issued our report thereon dated November 1, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Thomas Howell Ferguson P.A.

Tallahassee, Florida
November 1, 2021